



## *End of Session Report & Other Issues*

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**SECTION 1: LEGISLATION****Sales & Use Tax**

- **Prohibits revenue sharing agreements causing loss to other locals:** Includes public notice requirements; the bill does not apply to mutual tax revenue sharing agreements between locals where the agreement would not direct payment or rebate of revenues to a retailer **(SB 533/Pan)** *Chaptered*
- **Subjects convicted sellers and convicted purchasers to liability for the sales and use tax:** Applies to any non-retail sale or any purchase of goods associated with a counterfeiting **(AB 160/ Dababneh & Cooper)** *Chaptered*
- **Authorizes a customer to file a claim for refund of excess sales and use tax paid by the customer:** Includes an amount of \$1,000 or greater, allowing the BOE to make a direct refund to the customer **(SB 640/ Beall)** *Two-Year*
- **Sales tax exemption for energy or water efficient appliances:** Those provided at no cost to low income participants in an energy efficient program; \$4.5 million state and local loss & precedent **(AB 88/ Gomez)** *Vetoed*

**Local Voter-Approved Revenues**

- **Requirements for a proposed local tax initiative that imposes or raises the rate of a tax:** Must include in the statement of the ordinance to be voted on the amount of money to be raised annually and the rate of the tax to be levied **(AB 809/ Obernolte)** *Chaptered*
- **Isla Vista Community Services District/ UUT:** Prescribes a formation process, boundaries, governing body, tax authority, and services; allows the district to propose a UUT **(AB 3/ Williams)** *Chaptered*
- **TUT cap increase:** Proposed to raise the cap on the local transactions and use tax from 2% to 3% above the statewide base rate **(AB 464/ Mullin)** *Vetoed*
- **TUT cap increase for Transportation Agency for Monterey; County of San Mateo:** Allows these agencies to impose with voter approval a countywide sales tax for transportation purposes; exceeds 2% cap **(SB 705/ Hill)** *Chaptered*
- **Local tax for distributing tobacco:** Allows a county (subject to voter approval) to impose a tax for the privilege of distributing cigarettes and tobacco products **(SBX29/ McGuire)** *Special Session*

**Business License**

- **Tax sharing program:** Extends the FTB state-local tax information sharing program (which expires in 2019) to counties, and to a city and county **(AB 279/ Dodd)** *Chaptered*

**Post Redevelopment**

- **Revisions to post-redevelopment dissolution:** Includes issues related to the use of 2011 bond proceeds for affordable housing (former AB 974/ Bloom), the transfer of real property, the interest rate reduction on loans from cities to successor agencies, and other provisions **(SB 107/ Committee on Budget)** *Chaptered*

**Economic Development**

- **Allows locals to form Community Revitalization and Investment Authorities:** Post redevelopment economic development tool that allows the use of tax increment revenue to improve infrastructure, assist businesses and support affordable housing in disadvantage communities **(AB 2/ Alejo)** *Chaptered*
- **Enhanced Infrastructure Financing Districts:** Clarifying implementation for locals when used **(AB 313/ Atkins)** *Chaptered*
- **Greenways:** Promotes economic development by allowing governments to create easements for developing greenways along urban waterways **(AB 1251/ Gomez)** *Chaptered*
- **Local economic development and access to federal monies:** Streamlines the administrative processes at the California Infrastructure and Economic Development Bank to better serve the community development needs of local businesses and public agencies **(AB 1533/ Committee on JEDE)** *Chaptered*
- **Expands reporting requirements of the Small Business Finance Center:** Ensures that small businesses have access to programs, including lists of the city and county where the business is located **(AB 1537/ Committee on JEDE)** *Chaptered*

**Shared Economy / Short Term Rentals**

- **Advertiser of an online platform/ Internet website:** Must have property owner's permission **(SB 761/ Hall)** *Chaptered*
- **Use of shared economy services by state employees:** Prevents state agencies from prohibiting employees on official business from using transportation network companies or short-term rentals **(AB 229/ Chang)** *Chaptered*
- **TOT revenues from transient residential rentals:** Bolsters local effort to regulate land use impacts and collect taxes **(SB 593/ McGuire)** *Two-Year*



### **Cannabis Regulation & Banking**

The below package protects local control and is protected by dual licensing, includes the revocation of a local license or permit, enforcement and provides for civil penalties. Jurisdictions that currently ban, or may wish to ban, deliveries or mobile dispensaries should be aware that under this legislation, they will need to have an ordinance in place that affirmatively prohibits this activity. Readers should note that AJR 25 (Lackey) a non-binding California resolution that urges the President and Congress to support legislation that allows banks & credit unions to perform financial services for marijuana businesses was signed by the Governor.

- Enacts the Medical Marijuana Regulation and Safety Act; includes provisions with respect to ordinances, permits, licensing requirements, establishes the Bureau of Medical Marijuana Regulation, and more **(AB 266/Bonta)** *Chaptered*
- Creates a regulatory framework for cultivating, selling and transporting medical cannabis by the Bureau of Medical Marijuana Regulation, Department of Food and Agriculture and other state entities **(SB 643/ McGuire)** *Chaptered*
- Establishes a regulatory program for cultivation of medical cannabis; includes local provisions with respect to ordinances and issuing or denying permits for cultivation **(AB 243/ Wood)** *Chaptered*

### **Documentary Transfer Chargers / Property Taxation**

- **Noncontroversial changes to property tax law:** Improves property tax administration **(SB 803/ Committee on Governance and Finance)** *Chaptered*
- **Private transfer fees:** Must be disclosed to transferors of real property on related documents **(AB 807/ Stone)** *Chaptered*
- **Change of ownership statements:** Imposes penalties for failure to file a specific property statement or change in ownership within a specified time **(AB 571/ Brown)** *Chaptered*
- **Commercial and industrial property reassessment:** Proposed “split roll” **(SCA 5/ Hancock)** *Two-Year*
- **Welfare exemptions:** Requires county assessor to consider a recorded contract when welfare exemptions are granted including a restriction on the use of land for 30 years to owner occupied housing **(AB 668/ Gomez)** *Chaptered*

### **Local Governance**

- **Local financial reports:** Extends to 7 months after a locals fiscal year the deadline to submit to the Controller an annual report of the agency’s financial transactions **(AB 341/ Achadjian)** *Chaptered*
- **Wireless facilities:** Provides guidelines for the permitting process for wireless telecommunication facilities; under specified conditions approval is granted; applies provisions to all counties and cities, including charter cities; League opposed because the bill eliminates the ability for locals to meet their own community needs **(AB 57/ Quirk)** *Chaptered*
- **Car sharing spots:** Locals can set up designated spots for car sharing or ride sharing programs **(AB 1015/Bloom)** *Chaptered*
- **Electric vehicle charging programs:** Requires locals to create an expedited permitting and inspection process for electric vehicle charging stations **(AB 1236/ Chiu and Low)** *Chaptered*
- **Private parking:** Permits locals to authorize private parking facilities to regulate unauthorized parking **(AB 451/Bonilla)** *Chaptered*
- **Pedicabs:** Local authority required for alcohol to be consumed on a pedicab; by 2017 new safety requirements, including seatbelts **(SB 530/ Pan)** *Chaptered*
- **Estimates of organic waste generated:** Requires local governments to include organic waste recycling facilities in the existing planning requirements for countywide solid waste management **(AB 876/ McCarty)** *Chaptered*
- **Williamson Act/ open space:** Ensures locals that have established their own Williamson Act cancellation fees have the opportunity to weigh in on decisions that affect their communities and revenues **(AB 707/ Wood)** *Chaptered*
- **Extends the use of the Recycling Market Development Revolving Loan Subaccount to include payments to local governments** for the promotion of a recycling market development zone (RMDZ) **(SB 662/ Committee on Environmental Quality)** *Chaptered*

### **Open Government & Technology Uses**

- **ALPR:** Automated license plate recognition systems/ requirements for locals **(SB 34/Hill)** *Chaptered*
- **Open data:** Requirements for locals for ‘open data’ public records format **(AB 169/ Maienschein)** *Chaptered*
- **Related to process for contracts:** Requires local agencies that have adopted a Civic Openness in Negotiations (COIN) ordinance for their labor contracts to use a similar process to evaluate, negotiate, and approve specified goods or services contracts valued at \$250,000 or more; League opposed **(SB 331/ Mendoza)** *Chaptered*
- **Local government data systems:** Requirements to catalog certain data and for local to share information about their enterprise data systems by July 1, 2016 **(SB 272/ Hertzberg)** *Chaptered*

**SECTION 2: PREPAID MOBILE TELEPHONY SERVICES REVENUES (AB 1717/ BOE HEARING IN JANUARY)**

The BOE's Business Taxes Committee on September 16, 2015 voted to approve proposed regulations to implement a local government sought mechanism in AB 1717 (Chapter 885, Statutes of 2014) to collect revenues from prepaid wireless. It is estimated that AB 1717 will result in a 15 to 20% increase in existing wireless Utility Users Tax (UUT) noting that resulting will vary depending on the demographics of a city and the number of larger retail stores there. The proposed regulations include Prepaid Mobile Telephony Services Regulations 2460, 2461, and 2462; Proposed amendments to Emergency Telephone Users Surcharge Regulations 2401, 2422, and 2413 <http://www.boe.ca.gov/meetings/pdf/PrepaidMTSIPweb091615.pdf>.

**➤ SECTION 3: TRANSPORTATION (REVENUES/ FUNDS, SPECIAL SESSION)**

- **Transit Intercity Capital Program/ Greenhouse Gas Reduction Fund (TIRCP):** Requires the TIRCP to fund capital improvements that are "transformative" (rail, bus or ferry transit projects) to reduce vehicle miles travels, congestion and GHG emissions **(SB 9/ Beall)** *Chaptered*
- **LAMTA/ TUT:** Allows the LAMTA to ask voters to approve a sales tax increase in excess of the general 2 percent on local sales taxes **(SB 767/de León)** *Chaptered*
- **San Mateo/ Monterey County/ TUT:** Raises the transactions and use taxes cap for the County of San Mateo / Transportation Agency for Monterey County **(SB 705/ Hill)** *Chaptered*
- **Local transportation initiatives taxes:** Changes voting requirement from two-thirds majority to a 55% majority **(ACA 4/ Gomez)** *Assembly Appropriations*
- **SF BART:** Authorizes BART to purchase electricity generated by a renewable energy source; eliminates a third party requirement to procure these resources **(SB 501/ Leno)** *Chaptered*
- **Toll facilities:** Extends indefinitely the California Transportation Commission's (CTC's) authority to authorize regional transportation agencies to develop and operate high-occupancy toll (HOT) lanes and expands the authority to include other toll facilities (See AB 914 that allows San Bernardino County Transportation Commission to develop a HOT.) **(AB 194/ Frazier)** *Chaptered*
- **Transportation Plan:** California Transportation Commission must review the Caltrans 2015 California Transportation Plan and prepare specific, action-oriented recommendations for statewide integrated multimodal transportation system improvements **(SB 64/ Liu)** *Chaptered*
- **Performance metrics for State funding:** Modifies the metrics for public transit; intent is to create a more predictable, flexible funding system for local transit systems **(SB 508/ Beall)** *Chaptered*
- **Use of revenues in aiding motorists:** Expands the primary purposes for which Service Authorities for Freeway Emergencies (SAFEs) can use revenue from a \$1 vehicle registration surcharge to include other elements of a motorist aid system in addition to call boxes **(SB 515/ Fuller)** *Chaptered*
- **Water-borne transit projects:** Makes these projects eligible for cap-and-trade funding **(SB 231/ Gaines)** *Chaptered*
- **Omnibus transportation bill:** Makes numerous changes to the law regarding transportation; several provision create a crime and impose a state-mandated local program **(SB 491/ Committee on Transportation and Housing)** *Chaptered*

**Special Session**

- Increase various transportation revenues for 5 years for \$4.3 to \$4.6 billion annually. Revenue sources include excise tax on diesel and fuel, VRF for all vehicles (including electric) and Road Access Fee **(SBx11 & SB 16/ Beall)**
- Increases SUT on diesel from 1.75% to 5.25%. Revenues go to transit via State Transit Assistance Formula **(ABx1 8/ Chiu & Bloom and SB x1 7/Allen)**
- Doubles cap and trade appropriations for Transit and Intercity Rail Program (to 20%) and Local Carbon Transit Program (to 10%) **(ABx1 7/ Nazarian & SB x1 8/ Hill)**
- ABx1 1 / Alejo related to weight fees; SB x1 11/ Berryhill for a CEQA exemption; (ABx1 2/ Perea & SBx1 14/Canella) related to public private partnerships; SCAX1 1 & SCA 7/ Huff that provide constitutional protections; and ABx1 3 & ABx1 4/ Frazier related to transportation funding
- Changes the method (to 4 years of historical data) used by the BOE to adjust the excise tax on fuel **(SB 321/ Beall)**

**Fix Our Roads Coalition**

- MuniServices is a "Fix Our Roads" coalition partner. See <http://fixcaroads.com> for more detail on the special session, coalition partners, and efforts.

**SECTION 4: FAA RULING & USE OF LOCAL JET FUEL REVENUES (2017 COMPLIANCE REQUIREMENT/ PLAN DUE TO FAA BY 12/8/15)**

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. Refer to California City Finance at <http://californiacityfinance.com/FAA150701.pdf> for a broader analysis on the ruling. Advocacy: Jurisdictions that are impacted should contact their Congressional Representatives and federal lobbyists as soon as possible with concerns.

**SECTION 5: THE CHANGING ECONOMY (GAP BETWEEN GOODS AND SERVICES / LEGISLATION IN 2016)**

*Tax Analysts* Deputy Publisher David Brunori's article titled "Don't Be Fooled – Services Should Be Subject to Sales Tax" captures a national perspective on the issue. Foremost, the sales tax should fall on all final consumption preferably at a very low rate and everything we buy should be subject to tax. He states reasons: "First, there is no economic or tax policy reason to tax the purchase of a toaster oven, but exempt the purchase of a haircut or accounting service. They're both consumption. Second, exempting services narrows the base and results in higher taxes on everything else. Third, exempting services creates a government-led incentive to spend money on services over things that are taxable. But the tax laws shouldn't be used to mess with markets in that manner. Fourth, taxing services would make the system less regressive; rich people buy more services than poor people. Finally, the exemption in a service-dominated economy is very expensive."

Senator Hertzberg introduced SB 8 in 2015 that is placeholder language to broaden the tax base by imposing a sales tax on services. As currently drafted the bill does not allow an increase sales tax on services for local voter-approved district taxes and the bill does not lower the sales tax rate. The discussion and action on this bill is expected to continue during the 2016 Legislative Session.

The *Wall Street Journal* cited of the cumulative change for related products and services for the five years ended in May 2015:

- Television set (-57.7); cable / satellite service (13.7)
- Bottle of wine @ home(-0.6); bottle of wine @ restaurant (12.0)
- Men's suits and coats (-3.7); dry cleaning (9.2)
- Household cleaning products (0.3); household domestic service (7.8)
- Stationary (-1.4); postage for mail delivery (19.2)
- Sports equipment (-15.3); tickets to sporting event (17.3)

Although MuniServices has not seen draft language we are told any bill would be fairly comprehensive, capturing most services. Assuming there no rate decrease, the bill is expected to raise over \$120 billion a year.

**SECTION 6: PROPOSED INTERNET TAX FREEDOM ACT (S 431) (CONTINUED ITFA UNTIL DECEMBER 11)**

Congress passed a temporary spending bill on September 30th that would keep federal offices open and extend the Internet Tax Freedom Act (ITFA) until December 11. The continuing resolution (CR), an amendment to the TSA Office of Inspection and Accountability Act of 2015 (H.R. 719), passed the Senate 78 to 20 and the House 277 to 151. It extends government funding for the IRS and other federal agencies that was due to expire October 1, the start of fiscal 2016. The ITFA has been extended five times by Congress since it was first enacted in 1998. A proposed permanent Internet Tax Freedom Forever Act (S 431) 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 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. California is the only state with a voter-approval requirement and that has local excise taxes on telecommunications. On October 22, Senator Feinstein sent a letter to ranking members in the Senate with concerns that a permanent prohibition would hurt local governments, especially in California; the Senator asked for consideration to protect existing voter-approved taxes on telecommunication networks.

**SECTION 7: REMOTE TRANSACTION PARITY ACT/MARKETPLACE FAIRNESS (HR 2775 AND 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. MuniServices prepared an impact analysis for local governments if some form of HR 2775 were enacted.

**SECTION 8: 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**)

**SECTION 9: TRIPLE FLIP (WIND DOWN PROCESS UPDATE/ BOE PAYMENTS)****Part 1: What is paid through the Educational Revenue Augmentation Fund (ERAF)?**

In September 2015, the BOE and DOF published the Sales Use Tax Compensation Fund (SUTCF) to be paid to Cities and Counties in January and May 2016. These payments have three components: (1) The Property Tax In-lieu of Sales Tax amounts, (2) The True-Up for FY 2014-2015, and (3) The Administration Fee on 0.25% withheld in FY 2014-2015. Unlike in prior years, the Property Tax In-lieu of Sales Tax component of this year's payments will represent the amount estimated for withholding from 2015Q2 sales only, making this part of the payment  $\frac{1}{4}$  its normal amount.

**Part 2: When does the Sales Tax Allocation return to 1% from  $\frac{3}{4}$ %?**

The tax rate returns to 1% on January 1, 2016. Cities and Counties again will receive sales tax at the 1% rate beginning with the 1<sup>st</sup> Advance portion of the March 2016 payment.

**Part 3: When are Cities and Counties made whole?**

The DOF and BOE will be able to calculate the outstanding payments in May 2016. The outstanding amount will be the tax withheld from 2015Q3 and 2015Q4 sales and a true-up of January and May 2016 SUTCF payments and actual withheld from 2015Q2 sales. The DOF and BOE anticipate Cities and Counties will receive the final amounts due in August 2016. The final payment will make Cities and Counties whole.

Cities and Counties that accrue through August or part of September will experience a bump in sales tax revenue in FY 2015-2016 due to the unwinding of the Triple Flip and a return to receiving sales tax allocations at 1%. MuniServices' forecasts provide detailed information about how much a City or County would accrue and the size of the one-time bump in annual sales tax.

**SECTION 10: CALIFORNIA 2016 BALLOT PROPOSITIONS**

As discussed above the Governor vetoed AB 464 (Mullin) that would have raised the cap for locally-approved transactions and use taxes citing he is reluctant to approve the bill in view of all of the taxes being discussed and proposed for the 2016 ballot. According to BallotPedia, an interactive almanac of U.S. politics, to date, four statewide ballot propositions have been certified for the 2016 ballot in California. Several measures have been approved for circulation. Once the Office of the Attorney General of California has prepared a ballot title and a summary of a proposed initiative, the initiative is considered to be "cleared for circulation." Its supporters then have 150 days from the date that the title and summary were prepared to collect and submit to election officials the required signatures. See [http://ballotpedia.org/California\\_2016\\_ballot\\_propositions](http://ballotpedia.org/California_2016_ballot_propositions).

**SECTION 11: MANDATE REIMBURSEMENTS/ INTEREST AND PRINCIPAL PAID TO LOCALS**

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 was expected in September 2015, after the Controller's office recalculated and verified amounts estimated by DOF. The 2014 Budget provided for additional repayments if revenues in the Governor's 2015 May Budget Revise 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 is directed to counties, 22 percent (\$168 million) to cities and 1 percent to special districts.

**SECTION 12: AMNESTY FOR UNPAID TRAFFIC TICKET FINES (OCTOBER 1, 2015 TO MARCH 31, 2017)**

The Court Executives Advisory Committee and Judicial Council approved the Statewide Traffic Tickets/Infraction Amnesty Program Guidelines. The amnesty program provides relief to individuals with violations of eligible Vehicle and non-Vehicle Code infractions and specified misdemeanors by reducing outstanding court-ordered debt by 50 or 80 percent (as applicable) and/or reinstating suspended driver's licenses. The amnesty program is the result of enacted SB 85 in 2014.

**SECTION 13: FCC CHANGE ON BASIC CABLE RATE INCREASES (WITHOUT LOCAL APPROVAL/ FCC 15-62)**

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. [http://transition.fcc.gov/Daily\\_Releases/Daily\\_Business/2015/db0610/FCC-15-62A1.pdf](http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0610/FCC-15-62A1.pdf)

**SECTION 14: GASB RULING / ECONOMIC DEVELOPMENT****GASB Guidelines (Statement 77)/ Economic Development**

Source: <http://www.nlc.org/media-center/news-search/gasb-rules-on-tax-abatements>

The GASB approved guidelines that require local governments to disclose on financial statements information about tax abatement agreements. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues.

**New GASB Rules Regarding Health Care Costs / Reporting Obligations as Liabilities**

Source: <http://www.wsj.com/articles/relief-for-cities-budget-busting-health-care-costs-1437949974>

The rule requires local governments for the first time to report their obligations for retiree health care as liabilities on their balance sheets. Local governments must also use a reasonable and uniform methodology to calculate the present value of these liabilities. These are both steps forward, enhancing transparency and accountability. Local government health plans for retirees are on average only 6% funded, according to the Pew Charitable Trust. Because most cities pay these health-care costs almost entirely out of current budgets, they increasingly face two unattractive alternatives: raise taxes, or cut spending for such services as schools and police.