

**2017 "END OF SESSION" REPORT / FEDERAL TAX REFORM****Sales and Use Tax****Revenue Expansion**

- **Offer in Compromise Extension:** Repeals the January 1, 2018 sunset for the BOE existing "Offer in Compromise" program for active businesses; anticipates an average annual revenue gain of \$477,500. The bill is supported by the League of California Cities and California Chamber of Commerce. **(AB 525/ Aguiar-Curry)** *(Chaptered)*
- **Revenue Expansion - Reporting Use Tax Liabilities:** Requires a taxpayer who reports use tax on their FTB return to enter a number on the use tax line or to indicate that the taxpayer owes no use tax or the taxpayer has remitted the tax to the BOE; anticipates collecting approximately \$6.1 million annually. **(AB 1593/ Ridley-Thomas)** *(Chaptered)*

Authority to Impose Upon Voter Approval a District Tax Beyond 2% Cap

- **San Mateo County Transit District:** Would authorize the District's board to exceed the 2% limit to impose a transactions and use tax set at a rate of no more than 0.5%, if approved by the board before January 1, 2026. **(AB 1613/ Mullin)** *(Chaptered)*
- **Riverside County Transportation Commission:** Authorizes the Commission to impose a maximum tax rate for transportation purposes of 1%. **(AB 1189/ Garcia)** *(Chaptered)*
- **Counties of Alameda, Santa Clara and City of Santa Fe Springs: Cap Increase:** Authorizes these agencies to each impose a general-purpose or specific-purpose transactions and use tax that, in combination with all district taxes imposed, that may exceed the existing 2% rate limitation. **(SB 703/ Skinner)** *(Chaptered)*
- **Peninsula Corridor Joint Powers Board:** Allows the Board to impose a transactions and use tax up to 0.125%, applies to the Counties of San Francisco, San Mateo, and Santa Clara and used to expand Caltrain service and reduce traffic. **(SB 797/ Hill)** *(Chaptered)*

Additional Proposals Related to Local District Taxes

- **San Diego Area Transit Restructure and Sales Tax Increase:** Revises the governance structure and practices of the San Diego Associate of Governments, the Metropolitan Transit System, and the North Coast Transit District; authorizes MTS and NCTD to impose a 0.5% transactions and use tax for public transit purposes. **(AB 805/ Gonzalez Fletcher)** *(Chaptered)*
- **Affordable Housing Authorities/ Allocating and Use of Local Tax Revenues:** Permits a locality to establish an affordable housing authority to fund affordable housing; specifies that the authority can capture property tax increment, or revenues from a local sales and use tax or transactions and use tax, provided those revenues are used for qualified affordable housing projects. **(AB 1598/ Mullin)** *(Chaptered)*

Business License

- **TNC Drivers/ Single Business License:** Prohibits a local government from requiring business licenses from drivers for transportation network company (TNC) who do not reside in its jurisdiction. The bill requires the specified driver to obtain a business license in the local jurisdiction in which the driver is domiciled. Allows for the sharing of business license data among local jurisdictions. If a local jurisdiction does not require a business license to operate as a driver for a TNC, the drivers will not be required to obtain a business license for any other jurisdiction. **(SB 182/ Bradford)** *(Chaptered)*
- **Business License Fee / Certified Access Specialists/ Extends the Sunset and Increases the Fee to \$4/ New Requirements for Locals Without a BL:** Extends the fee (SB 1186, Chapter 383, Statutes of 2012) indefinitely. On and after January 1, 2018, and until December 31, 2023, increase the amount from \$1 to \$4; reverts the fee back to \$1 on and after January 1, 2024. For locals that do not issue a business license or an equivalent instrument or permit, would require an applicant for a building permit to pay an additional fee of \$4 on and after January 1, 2018, and until December 31, 2023, and an additional fee of \$1 on and after January 1, 2024, for the building permit, to be collected by the local agency issued the building permit. **(AB 1379/ Thurmond)** *(Chaptered)*



- **Taxicab Transportation Services:** Would require locals to regulate taxicabs if a taxicab provider is substantially located in the jurisdiction. A taxicab company or driver is substantially located within the jurisdiction where the primary business address of the company or driver is located. “Substantially located” also means the jurisdiction within a single county in which trips originating in that jurisdiction account for the largest share of that company or driver’s total number of trips within that county over the past year and determined every five years thereafter. A taxicab company or taxicab driver may be substantially located in more than one jurisdiction. The bill exempts the City and County of San Francisco. **(AB 1069/ Low)** *(Chaptered)*

Cannabis Regulation

- **AB 133 (Budget) Cannabis Regulation/ Clean Up:** SB 94 (2017) combined the Medical Cannabis and Regulatory Safety Act (MCRSA) and the Adult Use of Marijuana Act (AUMA: Proposition 64) into one regulatory framework for the regulation and licensure of medical and adult use cannabis businesses in California. AB 133 includes a provision allowing the state to issue a license to an applicant that shows proof of local approval without first verifying this with the local jurisdiction. There was agreement amongst stakeholders that this issue will be addressed through the Emergency Regulatory process. *(Chaptered)*

Energy/ Water/ Sewer/ Utilities/ Franchise Fees

- **Overtake Local Voter-Approved UUT: Prohibits Video Streaming:** Sets a precedent for cities and counties who have levied a UUT, and directly impacts 88 jurisdictions with a “video” provision. Cities receive between 15 and 30% of the general-purpose revenue from UUT; many provide exemptions for low income and elderly service users. **(AB 252/ Ridley-Thomas)** *(Interim Study)*
- **Conversion of Existing Overhead Electric & Communications Facilities/ Local Reimbursement:** In cases where locals ask for utilities to be moved (underground), requires locals to reimburse cable television operators the way they do other utilities (like telephone). The California Improvement Act of 1911 requires local governments provide all other utilities with partial reimbursement for the forced relocation of their facilities. **(AB 1145/ Quirk)** *(Chaptered)*

- **Solar Energy Systems: Permits: Lowers Fee Cap:** Reduces the maximum permit fee a local may charge for residential and applies these caps to a broader range of solar energy systems. Lowers residential permit fees to from \$500 to \$450 through January 1, 2025 and allows local governments to charge higher fees if they justify the cost. California has set a goal of procuring 50% of its electricity from renewable sources by 2030. Opposed by the League and CSAC. **(AB 1414/ Friedman)** *(Chaptered)*
- **Internet for All Now Act: Telecommunications: California Advanced Services Fund:** Local governments (as per the September 8, 2017 amendments) were added to the list of eligible applicants for the infrastructure (broadband) funding projects. The CPUC will give preference to applicant programs in communities with demonstrated low broadband access, including low-income communities, senior communities, and communities facing socioeconomic barriers to broadband adoption. Other eligible applicants are senior centers, schools, public libraries, nonprofit organizations, and community-based organizations with programs to increase publicly available or after-school broadband access and digital inclusion, such as digital literacy training programs. Authorizes the CPUC to collect \$330 million (or \$66 million surcharge) from intrastate telephone users for deposit in CASF beginning on January 1, 2018 and continuing through 2022. **(AB 1665/ E. Garcia)** *(Chaptered)*
- **Limits Local Discretionary Review: Wireless and Small Cell Telecommunications Facilities:** Prohibits cities and counties from precluding the leasing of their “vertical infrastructure,” including streetlights and stoplights, for the installation of wireless telecommunications facilities; and impose a cap developed for utility poles on the rents that cities or counties could charge for the use of their publicly-owned non-utility pole vertical infrastructure. **(SB 649/ Hueso)** *(Vetoed)*
- **Local Government: Fees and Charges:** Makes it easier for local agencies to finance projects capturing storm water to reuse it; provides legal clarity on the interpretation of Proposition 218 (defines “sewer”) while maintaining the proposition’s transparency and accountability guidelines. **(SB 231/ Hertzberg)** *(Chaptered)*



- **Storm Water: School Facility Water Capture Practices: Local Partnership:** Requires state and regional entities to consult on and recommend best design and use practices for storm water and dry weather runoff capture that can generally be applied to all new, reconstructed, or altered public schools. **(SB 541/ Allen)** *(Chaptered)*
- **Municipal Water Districts: Water Service: Indian Tribes:** Authorizes a municipal water district, until January 1, 2023, to apply to a local agency formation commission (LAFCO) to extend water service to Indian lands and prohibits the LAFCO from denying the application. **(AB 1361/ E. Garcia)** *(Chaptered)*
- **Water Quality: Safe and Affordable Drinking Water Fund for Disadvantaged Communities:** Funding will come from a safe drinking water fee in the form of a fertilizer mill fee, a safe drinking water fee on dairies, and a new, small safe drinking water fee assessed monthly on water bills. **(SB 623/ Monning)** *(Two-Year)*

Public Contracts

- **Counties: Prohibits Contracts for Certain Services:** As drafted, would place restrictions on how counties contract for personal services; requires counties to clearly demonstrate that the proposed contract will result in actual overall costs savings and to show that the contract does not cause the displacement of workers. AB 1250 calls for extreme restrictions on local flexibility and exponential increases in costs and workload for local governments that are unreasonable. **(AB 1250/ Jones-Sawyer).** *(Senate Rules)*

Economic Development

- **Local Agencies: Capital Investment Incentive Program:** Extends the authorization for locals to establish a capital investment program from January 1, 2018 to January 1, 2019. The CIIP, was enacted in 1997 to provide locals with an opportunity to attract large manufacturing facilities and to encourage industries, such as high technology, energy, environmental, and others to locate and invest in California. CIIP authorizes a local government to offer a partial property tax abatement for qualified manufacturing facilities. **(AB 755/ E. Garcia)** *(Chaptered)*

- **Climate Change: Enhanced Infrastructure Financing Districts:** Expands projects that can be funded with EIFDs to include those that enable communities to adapt to the impacts of climate change (extreme weather events, sea level rise, flooding, heat waves, wildfires, drought and others). **(AB 733/ Berman)** *(Chaptered)*

Local Governance

- **Inoperable Parking Meters:** Prohibits a local authority from prohibiting or restricting the parking of a vehicle in a space regulated by an inoperable parking meter or parking payment center but allows cities to implement a four-hour cap if notice is given at broken meters with no posted time limit. **(AB 1625/ Rubio)** *(Chaptered)*
- **Electric Generation Facilities Assessments:** Adds certain facilities that produce power from nonconventional power sources to the list of facilities that the BOE is not required to assess. This allows the facilities to be locally assessed. In the case of solar facilities, local assessment allows the facility to qualify for the new construction exclusion. **(SB 639/ Hertzberg)** *(Chaptered)*
- **AB 758 (Eggman) Tri-Valley-San Joaquin Valley Regional Rail Authority:** Would establish the Tri-Valley-San Joaquin Valley Regional Rail Authority for the planning and delivering transit connectivity between BART's transit system and the Altamont Corridor Express commuter rail services. The Authority's includes representatives from the following cities: Dublin, Lathrop, Livermore, Manteca, Pleasanton, San Ramon, Stockton, Tracy; Town of Danville; counties of: Alameda and San Joaquin; the Livermore Amador Valley Transit Authority, Mountain House Community Services District, and the San Joaquin Regional Rail Commission. *(Chaptered)*
- **Gambling Moratorium:** Extends by 3 years (currently expires in 2020) a statewide moratorium on expansion of legal gaming and threatens local revenue from these operations; blocks cities currently hosting card rooms from expanding operations. The bill is opposed by the League of California Cities. **(AB 1168/ Gibson)** *(Inactive File)*
- **Horse Racing: Payments to Cities: "Digital" Wages:** The digital age paved way for advance deposit wagering (ADW); the bill directs the California Horse Racing Board to determine that bets made on the race track property using ADW are included as part of the total payments made to cities from the betting handle. **(AB 1508/ Chau)** *(Two-Year)*



Special Districts / Internal Control Guidelines for Locals / State Controller

- **Special Districts:** Mandates the creation of a list of inactive special districts in California; establishes a process for local agency formations commissions (LAFCOs) to dissolve inactive special districts. **(SB 448/ Wieckowski)** *(Chaptered)*
- **Controller: Internal Control Guidelines for Locals:** Allows the State Controller to audit any local agency for purposes of determining whether the agency's internal controls are adequate to detect and prevent financial errors and fraud. **(AB 804/ C. Garcia)** *(Chaptered)*

Local Voter Requirements, Notices to the Public, Challenging Public Expenditures

- **Ballot Specifications for Tax Measures:** Requires the ballot statement for *all* local ballot measures that impose a tax or raise the rate of a tax to include specified information about the tax. **(AB 195/ Obernolte)** *(Chaptered)*
- **Local Initiative Measures: Submission to Voters: Special Elections:** Eliminates the requirement that a special election be held to vote on a local initiative measure if certain conditions are met, and instead generally provides for the measure to be submitted to voters at a regularly scheduled election. **(AB 765/ Low)** *(Chaptered)*
- **Local Bond Measures:** Requiring the fiscal statement that is required to be included in the sample ballot for local bond measures to include the best estimate from official sources of the average annual tax rate that would be required to repay the bond. **(AB 1194/ Dababneh)** *(Chaptered)*
- **County Voter Information Guide:** Requires ballot pamphlets mailed to voters to include a notification that any new taxes approved by voters must be challenged within 60 days of that tax's approval. **(SB 348/ Leyva)** *(Two-Year)*
- **Transparency: Parcel Tax Notice:** Would require a local agency to provide thirty-day notice of a new parcel tax to any owner of record of a parcel affected by the tax, if that owner of record does not reside within the jurisdictional boundaries of the taxing entity. **(AB 448/ Daly)** *(Two-Year)*

Affordable Housing

The Governor on September 29 signed 15 pieces of legislation aimed at increasing the State's housing supply and affordability.

- **Recording Fees:** Imposes a fee of \$75 to be paid at the time of the recording of every real estate instrument, and not to exceed \$225, to fund affordable housing. **Use of Funds:** Requires half of the funds collected in the first year to be spent towards persons experiencing homelessness and the remaining half to be made available to localities to update planning document and zoning ordinances. In year two and beyond, 70% of the funds shall be distributed directly to locals and 30% shall go to the state to be spent for designated purposes. **(SB 2/ Atkins)** *(Chaptered)*
- **Veterans and Affordable Bond Act of 2018:** Will ask voters on the November 2018 ballot to authorize the sale of \$3 billion in GO bonds with proceeds used to finance various existing housing programs, and infill infrastructure financing and affordable housing matching; and \$1 billion for home loans to military veterans. **(SB 3/ Beall)** *(Chaptered)*
- **Approval Process / Limits Local Discretion:** Would pre-empt local discretionary land use authority by making approvals of multifamily developments, that meet inadequate criteria, "ministerial" actions, thus bypassing the California Environmental Quality Act (CEQA) and public input. **(SB 35/ Wiener)** *(Chaptered)*
- **Residential Density and Affordability:** SB 166 requires that a local jurisdiction to maintain adequate housing sites at all times throughout the planning period for all levels of income. The author states the bill is intended to expand the supply of housing, including affordable housing, by ensuring that localities maintain an ongoing supply of land to meet the locality's unmet housing needs. SB 167 increases the burden on local jurisdictions from "substantial evidence" to "a preponderance of the evidence" when making findings as to the disapproval of a housing development project. **(SB 166 and SB 167/ Skinner)** *(Chaptered)*



Transportation Package / Project Lists Were Due by October 16, 2017

Invests \$52.4 billion over the next decade - split equally between state and local investments. ACA 5 is the companion to SB 1 and provides the constitutional protections for revenues generated under SB 1.

Funding / Increase Gas Tax November 1, 2017

- 1.8 billion from a 12-cent increase to the gasoline excise tax and annual adjustments to the current base gas tax and increase for inflation (effective November 1, 2017).
- \$1.1 billion from ending the BOE "true up" and resetting the rate to the historical average of 17.3 cents per gallon, adjusted annually for inflation (effective July 1, 2019).
- \$1.6 billion from a transportation improvement fee, adjusted annual for inflation (effective Spring 2018).
- \$600 million from a 20 cent per gallon increase to the diesel excise tax, adjusted annually for inflation (effective November 1, 2017).
- \$300 million from a 4 percent increase to the diesel sales tax (effective November 1, 2017).
- \$20 million from new \$100-dollar Vehicle Registration Fee on zero emission vehicles model year 2020 and later, adjusted annually for inflation (effective July 1, 2020).
- \$706 million from Loan Repayments. \$706 million one-time funds for transportation loan repayments which will be repaid proportionately and in equal installments over three years.

Fix Local Streets and Transportation Infrastructure (50 percent)

\$15 billion: in "Fix-It-First" local road repairs
\$7.5 billion: improve local public transportation
\$2 billion: to local "self-help" communities that make their own investments in transportation improvements
\$1 billion: improve infrastructure that promotes walking and bicycling
\$825 million: State Transportation Improvement Program local contribution
\$250 million: local transportation planning grants

Fix State Highways and Transportation Infrastructure (50 percent)

\$15 billion in "Fix-it-First" highway repairs (pavement)
\$4 billion in bridge and culvert repairs
\$3 billion to improve trade corridors
\$2.5 billion to reduce congestion on major commute corridors
\$1.4 billion in transportation investments; \$275 million for highway and intercity-transit improvements.

California Department of Tax and Fee Administration

SB 131: California Department of Tax and Fee Administration, Office of Tax Appeals/ Emergency Regulations for the Local Allocation Process/ Hearings

In meetings with Marybel Batjer, Secretary of the Government Operations Agency, and the CDTFA's new executive director, Nick Maduros, MuniServices expressed that our focus with the new agency transition is to assure that all local agencies continue to have the needed regulations and rules in place for governing local sales and use tax allocations and that a process is in place in cases when appeals become necessary. We noted that MuniServices was a vocal advocate during the development of Regulation 1807, Petition for Reallocation of Local Tax (Bradley Burns; Transactions and Use Tax), Regulation 1828, Petitions for Distribution or Redistribution of Transactions and Use Tax, and the regulatory efforts to implement AB 1717 (Regulation 2640, prepaid wireless collection mechanism). MuniServices was told that efforts are underway for the adoption of emergency regulations by the end of 2017.

Federal Tax Reform

Federal Legislation / Efforts to Overturn *Quill*

Would Require Remote Sellers to Collect and Remit State Sales and use Taxes: Remote Transactions Parity Act (H.R. 2193) in the House; Marketplace Fairness Act (S. 976) in the Senate; Online Simplification Act circulated by the House Judiciary Committee Chair.

Limit States' Ability to Tax and Regulate Interstate Commerce Exclusively to Activity Conducted by Entities with Physical Presence: No Regulation Without Representation (H.R. 2887). State and local government groups see H.R. 2887 as an unprecedented and intrusion on state sovereignty and a violation of the 10th Amendment.



Quill and Marketplace Fairness: *Quill* limits the collection of sales and use tax to vendors with a physical presence in the state. The State of South Dakota's October 2 petition to the U.S. Supreme Court urges overturning *Quill*.

"Big Six" Tax Framework

The details of the Republican Tax Plan are yet to be released to the public but based on what is known today about the proposal it has the potential for significant impacts on California residents. The Big Six Republican tax leaders include – two representatives each from the White House, the Senate and the House of Representatives.

https://www.taxreformandtransition.com/wp-content/uploads/sites/29/2017/09/Tax-Framework_.pdf

The proposal (limited detail) will include: "Zero Tax Bracket"; "Individual Tax Rate Structure"; "Enhanced Child Care Tax Credit and Middle-Class Tax Relief"; "Individual Alternative Minimum Tax (AMT)"; "Itemized Deductions"; "Work, Education and Retirement"; "Other Provisions Affecting Individuals"; "Death and Generation Skipping Transfer Taxes."

State and Local Tax Exemption: The federal deduction for state and local taxes allowed Californians to reduce their taxable income by \$101 billion in 2014. If eliminated this could take discretionary income out of the California economy unless other provisions in the tax plan offset the losses.

The U.S. Conference of Mayors provided MuniServices with the following regarding the implication should a SALT deduction elimination occur: "If our taxpayers lose the deduction for their state and local income, property and sales taxes, they will face double taxation. Instead of allowing working families in every one of our communities to deduct the amount they pay in state and local taxes, the Federal government will basically be forcing taxpayers, who make up the backbone of our economy, to pay taxes a second time on the same income. The ripple impact gets worse when we realize that a loss in local revenues could result in a cut in critical services—police and fire protection, education, health care, transportation and housing.

Facts show that 39% of taxpayers with annual earning between \$50,000 to \$75,000; and 70% of taxpayers with annual earning between \$100,000 and \$200,000 use the SALT deduction. "

Home Mortgage Interest Deduction: A reduction in the home mortgage interest deduction ceiling from \$1,000,000 to \$500,000 is also apparently still on the table for discussion in the Republican Plan. This provision would have a disproportionate impact on states like California with high housing costs. This reduction would increase the amount of Federal taxes paid by Californians with mortgage interest from loans in excess of \$500,000. The California Realtors Association estimates that the average California home owner could pay as much as \$3,000 more per year in taxes

Voter Impact: Loss of State and Local Tax deductions could also make voters more sensitive to future proposals for increased property taxes making it more difficult to obtain voter approval for tax increase measures including property tax financed voter approved bond measures.

[FAA Ruling – Redirecting Sales Tax Revenues / December 1, 2017 Implementation/ Suggested Approach – Unique Sellers Permit](#)

This is relevant to local agencies (that have an airport) with an adopted local sales tax in place after December 31, 1987. We are not aware of a viable amendment for consideration to overturn the ruling or to exempt local voter approved taxes. This ruling is a direct threat to local voter decisions.

In the event the FAA ruling is not reversed prior to the December 1, 2017 implementation, MuniServices has asked the CDTFA and DOF to consider issuing a unique seller's permit for av-gas and jet fuel sellers to report sale of av-gas and jet fuel *only* on that unique seller's permit. The sellers then would then report all other items they may sell on their current seller's permit. This way, a local or impacted jurisdiction, can track exactly how much sales tax is coming from fuel sales.

[Resources](#)

Resources and Previously Published Policy, and Economic News and Trends Reports:

<http://www.muniservices.com/muniservices-policy-update-library/>