



This report is an initial discussion framework noting that at the time of print 2017 legislative proposals will continue to be introduced and as expected with any new Federal Administration, policy priorities impacting local funding will likely shift. **February 17 is the last day for bills to be introduced.** Senators may introduce up to 65 bills during a session; Assembly Members may introduce up to 50 bills during a regular two-year session. Proposition 54 adopted by voters in November 2016 requires all bills, including the budget and budget trailer bills, must be in print for three days prior to the final vote in either house of the Legislature. Please contact your MuniServices Client Manager or a member of the Government Relations team for questions or further clarification on policy matters.

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## SALES AND USE TAX

**Exemption for Feminine Products:** State and local exemption for feminine hygiene products. (AB 9/ Garcia)

**Snack Tax:** Expresses intent for the Legislature to enact policy that defines the term "snack food." ACA 2 (Garcia) would also amend the state constitution to repeal the voter-approved prohibition on taxation of specified food products for human consumption, and requires the application of sales and use tax beginning April 1, 2019. (AB 274/ Cristina Garcia)

**Exempt Property Used as Security Loan:** Applies to a person who pledged the property to the pawnbroker as security for a loan and from whom title transferred to the pawnbroker (sunsets January 2022). (AB 327/ Gipson)

**Interest/ Penalties:** Would prohibit the assessment of interest and penalties against any person for failure to make payments of any taxes if the failure to make a payment is attributable to the failure of the Board of Equalization's (BOE) website. (SB 11/ Gaines)

**Exemption for Manufacturing and Research:** Expands the law to qualified software publishers, and qualified persons that conduct agricultural business activities. (SB 13/ Gaines)

**Exemption for Building Materials and Supplies:** Applies to items purchased by a qualified person for use by that person in the construction of specified military and veteran medical facilities. (SB 197/ Bates)

**Challenging Quill:** The 2016 election has left the future of federal remote sales tax legislation uncertain. Previous efforts to overturn the U.S. Supreme Court's 1992 ruling have involved negotiation with the private sector and policy discussions. In 2016 Alabama, Tennessee, and South Dakota pushed measures inviting litigation to reverse *Quill*. Wyoming recently considered a proposal (H.B. 19) to determine how its Department of Revenue could bring action to obtain a judgement that the remote seller's obligation to remit sales tax is applicable and valid under state and federal law. After the bill's introduction Amazon.com announced they would begin collection tax on remote sales. Amazon now collects sales tax in 32 states and the District of Columbia.

**BOE Updated Guide for Businesses Identifying and Reporting Use Tax:** BOE Publication 123, California Businesses: How to Identify and Report California Use Tax Due (<http://www.boe.ca.gov/pdf/pub123.pdf>)

**Sales and Use Tax Rate Lowered on January 1, 2017:** The total statewide rate dedicate specific percentages to the general fund, local public safety, education, transportation and other purposes dropped from 7.5 percent to 7.25 percent as a result of the expiration of the sales tax increase in Proposition 30, approved by voters in 2012. Proposition 30 included a personal income tax rate increase that was set to expire at the end of 2018, but voters' via Proposition 55 extended that tax increase through 2030. <http://www.boe.ca.gov/news/sp111500att.htm>

**BUSINESS LICENSE**

**Single Business License:** States the intent of the Legislature to establish a single business license for industries with small business owners that operate in multiple local jurisdictions. MuniServices representatives met with the author's office and was told the bill is industry sponsored and is intended to help the self-employed (sharing economy) and specifically drivers by allowing them to operate in multiple localities with a single business license. MuniServices was also told the bill will also apply to industries beyond self-employed drivers. **Suggested Action:** Contact your respective Legislators regarding: a) concerns with issues surrounding local control, b) the decline in this local revenue stream to the city, and c) SB 182 should be part of an overall conversation regarding tax reform with respect to the new economy. (SB 182/ Bradford)

**SHARED ECONOMY/ TOT/ WHY POLICY IS A CHALLENGE TO FRAME**

At the time of print we are not aware of legislation to address TOT collection mechanisms for on-line platforms. In 2016 there were measures proposed that intended to allow online platforms (also known as "collecting platforms") to *elect* to participate and collect TOT revenues and the return the revenue to locals; "collecting platforms" would be subject to an annual audit or review conducted by the State Controller. Another measure would have set up a mechanism to allow locals and on-line platforms to 'opt in' a process for the collection of TOT revenues. The following article discusses the dynamics on why policy may be difficult to frame: <http://www.latimes.com/politics/la-pol-sac-airbnb-laws-california-legislature-20170203-story.html>

**UUT LEGISLATION AND 2017 TRENDS**

**Exempts all taxes and the local Utility User Taxes on Video Streaming Services:** The proposed exemption would extend to 2023. The cities mentioned by the news media (and AB 252's introduction fact sheet) are purported to have an administrative ruling in place that extends to streaming videos. No city in California has adopted a tax on video streaming services to date. **Suggested Action:** Contact your respective Legislators regarding: a) the unnecessary need for AB 252, b) the continued decline in UUT revenues and why the city's voters approved a modern ordinance, and c) UUT's are highly complex and AB 252 should be part of an overall conversation regarding tax reform. (AB 252/ S. Ridley Thomas)

*UUT Trends*

- **OTT Service:** Developing a consensus on the taxation of certain OTT services, recognizing that there is currently a lack of clarity on the issue of "nexus", which may be addressed through future federal legislation or federal case law.
- **Updating Nexus Rules:** Pursuing federal laws that will replace outdated "physical presence" nexus rules with modern "economic presence" rules for the taxation of digital goods (like OTT service) or sales over the internet.
- **Prepaid Wireless Reviews:** Compliance reviews of major remitters of prepaid wireless UUT (direct sellers and large retail stores) to verify they are applying and remitting the UUT properly.
- **BOE as a "UUT Tax Collector":** Evaluating AB 1717 (a moratorium with an expiration date of 2020) as a cost-effective tool for collecting prepaid wireless UUT.
- **Next Big Service/Product:** Keeping an eye on the technology/marketing horizon for the next big service or trend that may have taxation implications, and timely addressing the issue with an appropriate administrative ruling.
- **Internet Tax Freedom Act (ITFA):** A "California exception for voter-approved ordinance" should remain a priority.
- **Gas and Electricity, Conservation:** Including more energy efficient products will continue to reduce energy consumption. Also, it is likely that renewable resources like solar will continue to be off-limits for local taxes (currently under a moratorium ban). In 2020, the state goal is that 35% of the electricity in California will come from non-taxable renewables. So, unless inflation produces high energy costs, don't expect much growth in your energy UUT beyond that attributable to population growth.

**CANNABIS/ MARIJUANA**

**“Blue Chip” Team:** MuniServices developed a team of experts to provide “Cannabis Support Services” to local jurisdictions. The team experience includes, audit and compliance, tax/fee revenue projection, land use and zoning evaluation, ordinance development, public safety concerns, polling, research and stakeholder outreach. **Resource Center:** MuniServices maintains a Resource Center on its website that provides information related to current issues, trends, policy reports, regulatory updates, data, relevant resources, and more.  
<http://www.muniservices.com/services/cannabis-support-services>

*Proposed 2017-18 State Budget (Cannabis) Highlights/ LAO Recommendations*

Implementing the current medical and recreational cannabis statutes separately will result in duplicative costs of an additional \$25 million for a second track and trace system. The proposed 2017-18 Budget includes \$52.2 million for the regulation of cannabis in 2017-18 to fund regulatory activities, processing of licenses, and enforcement. Since cannabis license fees will not be collected until January 1, 2018, the General Fund provided loans to the Marijuana Control Fund to cover the initial implementation and regulatory costs for cannabis-related activities. The LAO on February 14, 2017 released an analysis of the Governor’s proposals and recommendations. See:  
<http://www.lao.ca.gov/reports/2017/3556/Governors-Cannabis-Proposal-021417.pdf>

**Department of Consumer Affairs:** \$22.5 million to enhance the Bureau of Medical Cannabis Regulation within the Department of Consumer Affairs. The Bureau will regulate the transportation, storage, distribution, and sale of cannabis within the state and will also be responsible for licensing, investigation, enforcement, and coordination with local governments.

**Department of Public Health:** \$1 million for the licensing and regulation of medical cannabis product manufacturers.

**Department of Food and Agriculture:** \$23.4 million to provide Cannabis Cultivation Program administrative oversight, promulgate regulations, issue cannabis cultivation licenses, and perform an Environmental Impact Report. The Department is responsible, with assistance from the Department of Technology and the BOE, for establishing a track and trace program to report the movement of medical cannabis products throughout the distribution chain.

**BOE:** \$5.3 million in FY2017-18 to notify businesses of the new tax requirements and update its information technology systems to register businesses and process tax returns from retail sales. Proposition 64 requires the BOE to administer an excise tax on cannabis sales and a cultivation tax on all harvested cannabis that enters the commercial market.

**Department of Health Care Services:** \$5 million in 2016-17 for the public information program specified in Proposition 64, to be established and implemented no later than September 1, 2017.

*Cannabis / Marijuana Legislation*

**Medical and Nonmedical Regulation and Advertising:** Among various provisions would specify that licensees under the MCRSA may operate for profit or not for profit; including provisions for when a retailer license may be issued for storefront locations and advertising. *(AB 64/ Bonta)*

**Marketing to Minors:** States the intent of the Legislature to introduce legislation relating to the prohibition of the marketing of adult-use marijuana to children. *(AB 76/ Chu)*

**Edible Products:** Specifies that that a marijuana product is deemed to be appealing to children or easily confused with commercially sold candy if it is in the shape of a person, animal, insect, fruit, or in another shape normally associated with candy, but would not prohibit a licensee from making an edible marijuana product in the shape of the licensee's logo. *(AB 350/ Salas)*

**Consumer Guide:** Requires the Bureau of Marijuana by July 1, 2018, to establish and make available on its Internet Web site a consumer guide to educate the public on the regulation of medical and nonmedical marijuana. *(AB 389/ Salas)*

**Local Regulation:** Allows a city, county, or city and county, to regulate, by ordinance, the sale of a substance used as a recreational drug that poses a threat to human life or health and a particular risk to minors. Allows a city council or county board of supervisors to require vendors to maintain records of sale, make inventory available for inspection by a peace officer, and store a substance in a secure place that cannot be accessed by minors. *(SB 139/ Wilk)*

**Collecting Cash for Cannabis Taxes:** Authorizes the BOE or a county to collect cash payments from cannabis-related businesses, and allows a state agency to impose a “cash collection fee” to cover costs of collection *(SB 148/ Wiener)*



*Proposed Revisions to Compliance Manuals Chapter 2, Registration and Chapter 7, Collections. (Medical Marijuana Seller Registration) <http://www.boe.ca.gov/sutax/staxmanuals.htm>*

**Comments are Due March 10.** BOE Staff on January 10 notified interested parties of its intent to commence the review of policies and procedures for medical marijuana seller registration and for collections from successors. MuniServices team is reviewing the proposals and will notify clients of its analysis and any suggested action.

#### TRANSPARENCY / LOCAL GOVERNANCE

**Ballot Printing Specifications:** Clarifies existing law so that charter cities and charter counties would be required to disclose on the ballot statement of any bond measure, the amount of money to be raised annually and the rate and duration of the tax to be levied to pay for the proposed indebtedness. *(AB 195/ Obernolte)*

**Municipal Code Violations:** States the intent of the Legislature to include provisions that would increase the maximum fee a local government may fine for municipal code violations to \$500 per violation and to clarify that an initial warning need not be given prior to the imposition of a fine. *(AB 345/ Ridley-Thomas)*

**Fishing: Local Regulation:** Prohibits a local agency from adopting or enforcing an ordinance to regulate fishing and would provide that this provision is declaratory of existing law; would authorize any person to bring an action against a local agency for a violation of this prohibition. *(SB 234/ Berryhill)*

#### TRANSPORTATION / INFRASTRUCTURE

*Proposed 2017-18 State Budget (Transportation) Highlights:*

**Selected Components of the Governor's Proposed Transportation Program:** \$1 billion Cap and Trade for Caltrans to expand the grant program for local projects that encourage active transportation such as bicycling and walking, with at least 50 percent of the funds directed to benefit disadvantaged communities. **Local Streets and Roads/Local**

**Partnership Funds:** About \$11.4 billion in shared revenues to cities and counties for local road maintenance, and over \$2.2 billion in state-local partnership grants. **Sustainable Transportation Grants:** An increase of \$25 million annually for competitive planning grants to assist regions and local governments to achieve the sustainable transportation requirements in SB 375 from 2008. **Corridor Mobility Improvements:** An increase of over \$2.7 billion for multi-modal investments on key congested commute corridors that demonstrate best practices for quality public transit and managed highway lanes such as priced express lanes or high-occupancy vehicle lanes. Included is \$25 million annually to expand the freeway service patrol program. **Highway Repairs and Maintenance:** An increase of \$18 billion for Caltrans to fund repairs and maintenance on the state highway system.

**Governor's Proposed Funding:** The 10-year funding plan will provide a total of almost \$43 billion in new funding and redirected savings from efficiencies for transportation priorities. **Road Improvement Charge:** \$2.1 billion from a new \$65 fee on all vehicles, including hybrids and electrics. **Stabilize Gasoline Excise Tax:** \$1.1 billion by setting the gasoline excise tax at the 2013-14 rate of 21.5 cents and eliminating the current annual adjustments. **Diesel Excise Tax:** \$425 million from an 11-cent increase in the diesel excise tax. **Cap and Trade:** \$500 million in additional Cap and Trade proceeds. **Caltrans Efficiencies:** \$100 million in cost-saving reforms.

*Transportation / Infrastructure Proposed Funding and Legislation*

**Funding for Deferred Maintenance on State Highway and Local Street and Road Systems:** Increases the diesel tax an aggregate 15 cents per gallon. Increases the motor vehicle fuel tax 12 cents per gallon. Increases the sales and use tax on diesel fuel by an additional 3.5 percent. Increases the vehicle registration fee for standard vehicles by \$38 annually, and \$165 for zero-emission electric vehicles. Restricts the use of funds, dedicating the money to transit capital projects; Redirects certain vehicle weight fees from servicing transportation debt to funding road construction projects, and prohibits the fee revenue from being loaned to the general fund. MuniServices is a Fix Our Roads Coalition partner and supports these measures. The legislative proposals means \$2.2 billion returning to cities and counties. The Governor's overall package would provide \$1.16 billion to cities and counties. *(AB 1/ Fraizer and SB 1/ Beall)*



**Fees and Rebates / Sales of New Cars:** States intent to enact legislation to reduce net emissions from greenhouse gases from transportation by imposing fees and granting rebates on sales of new automobiles and light trucks. *(AB 33/ Quirk)*  
**HOUSING**

*Proposed 2017-18 State Budget (Housing) Highlights*

As reported in the Governor’s proposed 2017-18 State Budget, the state projects 180,000 units of new housing construction is needed annually over the next 10 years to meet the state’s growing housing demand. Production has remained below 100,000 new units annually over the last eight years. Approximately half of all California households are spending more than 30 percent of their income on housing costs, and nearly one-third of all California households are spending more than 50 percent of income on housing costs. **Proposed 2017-18 Budget:** \$3.2 billion in state and federal funding and award authority. Specific county needs can be found at <http://www.ebudget.ca.gov/2017-18/pdf/BudgetSummary/HousingandLocalGovernment.pdf>.

*Housing Legislation*

**Sustainability District:** Would authorize certain local governments (including charter cities) to establish by ordinance a housing sustainability district, including authorizing residential use within the district through the ministerial issuance of a permit. Authorizes locals to apply to the Office of Planning and Research for approval for a zoning incentive payment and provide information about the proposed housing sustainability district ordinance. *(AB 73/ Chiu)*

**Recording Fees for Affordable Housing Use:** Would enact the Building Homes and Jobs Act and make legislative findings and declarations relating to the need for establishing permanent, ongoing sources of funding dedicated to affordable housing development; imposes a fee of \$75 to be paid at the time of the recording of every real estate instrument , not to exceed \$225. Of the tax revenue, 20 percent is designated for “affordable owner-occupied workforce housing,” and 10 percent for housing related to agricultural workers. *(SB 2/ Atkins)*

**Bonds:** Would enact the Affordable Housing Bond Act of 2018, which, if adopted, would authorize the issuance of bonds in the amount of \$3 billion with proceeds from the sale of these bonds used to finance various existing housing programs, as well as infill infrastructure financing and affordable housing matching. *(SB 3/ Beall)*

**Elimination of Mortgage Interest Deduction for Second Homes:** The bill increases the housing credit dollar amount that may be allocated to low-income housing projects and farm worker housing projects. *(AB 71/ Chiu)*

**POST REDEVELOPMENT (PROPOSED 2017-18 STATE BUDGET)**

The winding down of the state’s former redevelopment agencies eliminated the state’s approximately 400 redevelopment agencies and replaced them with locally organized successor agencies. The returning of property tax includes the periods of FY2011-12 through FY2015-16, with approximately \$1.7 billion returned to cities, \$2.1 billion to counties, and \$658 million to special districts. **Proposed 2017-18 Budget:** Anticipates that cities will receive an additional \$733 million in general purpose revenues in 2016-17 and 2017-18 combined, with counties receiving \$869 million and special districts \$260 million. The Budget anticipates that additional ongoing property tax revenues of more than \$900 million annually will be distributed to cities, counties, and special districts. This unrestricted funding can be used by local governments to fund police, fire, housing, and other public services.

**ECONOMIC DEVELOPMENT/ ECONOMIC SUMMIT ROADMAP**

**California Competes Tax Credit / “Small Business” Definition:** States intent to expand the definition of “small business” under the California Competes Tax Credit program from less than \$2 million to less than \$4 million in annual aggregate gross receipts. *(AB 162/ Cervantes)*

**Regional Economic Development Areas:** States the intent to enact legislation that would develop regional economic development areas. *(AB 358/ Grayson)*

**Policy Resources:** <http://ajed.assembly.ca.gov>

**CAP AND TRADE / ELECTRIC UTILITY CREDIT**

Cap and Trade, the market based regulation is designed to reduce greenhouse gases from multiple sources. To date, the state has appropriated approximately \$3.4 billion in Cap and Trade auction proceeds for programs that reduce or sequester greenhouse gases by providing individuals, households, communities, and regions more transit options, modern housing near jobs and services, additional tree cover, forest and watershed improvements, healthy soils, recycling opportunities, and housing upgrades to cut energy use. **Local Impact:** With Cap and Trade proceeds from the electric utility sector, over 10.8 million households have received climate credits on their bills twice per year since 2014 to reduce by over \$2 billion the impact of changing household electric utility costs. Clients are encouraged to contact their MuniServices Client Manager for city-specific impact.

**Cap-and-Trade Extension to 2030:** Extends the California Air Resources Board's authority to adopt market-based compliance greenhouse gas emission reduction measures past 2020 to December 31, 2030. *(AB 378/ Cristina Garcia, Holden, Eduardo Garcia)*

**Cap-and-Trade for Wetlands:** Allows the Legislature to appropriate revenue generated by the cap-and-trade auction on the beneficial reuse of high-quality dredged material for wetland restoration, flood protection and carbon sequestration. *(AB 388/ Mullin)*

**REGULATIONS**

**Mandatory Legislative Review of Regulations:** Requires all new regulations exceeding \$50 million to be reviewed by the Legislature before going into effect. *(AB 77/ Fong)*

**Administrative Regulations Review:** Would require each state agency to, before January 1, 2020, review that agency's regulations, identify any regulations that are duplicative, overlapping, inconsistent, or out of date, to revise those identified regulations, and report to the Legislature and Governor. *(AB 12/ Cooley)*

**TAX REFORM**

State Controller Betty Yee in 2016 set forth conceptual discussion points for tax reform, and the League of California Cities convened an Internal Working Group, which include representatives from MuniServices, to discuss policy concepts. We look forward to advancing discussions and policy in 2017. See: [http://www.sco.ca.gov/Files-EO/Comprehensive\\_Tax\\_Reform\\_in\\_California\\_A\\_Contextual\\_Framework\\_06\\_16.pdf](http://www.sco.ca.gov/Files-EO/Comprehensive_Tax_Reform_in_California_A_Contextual_Framework_06_16.pdf)

At the time of print we are not aware of related proposed measures. Local governments' in response to declining revenues continue to ask their voters to consider local revenue measures to support community needs. In November 2016, 353 out of 427 tax or bond measures passed. The 167 tax measures that passed will increase local taxes by more than \$2 billion annually. Local sales taxes account for more than \$1.5 billion of these revenues. For perspective in 2010 there were 20 local sales tax measures presented to voters, in 2012 there were 35, in 2014 there were 54, and in 2016 there were 89.

**TAX DEDUCTIONS/ CAPITOL GAINS**

**Pet Adoption Deductions:** Allows a personal income tax deduction, not to exceed \$100, for qualified costs incurred by the taxpayer for the adoption of a qualified pet. Another proposed measure, AB 485 (O'Donnell) includes intent language to encourage policy to promote animal adoptions from shelter and rescue groups, and encourage humane practices in the purchase of dogs for retail sales. *(AB 292/ Steinorth)*

**Tax Deduction for First-Time Home Buyers.** Allows a personal income tax deduction for expenses related to the purchase of a principal residence by a qualified first-time home buyer. *(AB 198/ Patterson)*

**Capital Gains and Losses.** A spot bill that makes non-substantive changes concerning capital gains. *(AB 201/ Steinorth)*