

ATTACHMENT B

TO: Members, County of Santa Barbara Legislative Committee

FROM: Cliff Berg, Legislative Advocate
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RE: 2016 State Update

DATE: December 19, 2016

The Legislature adjourned the second year of the 2015-16 Session on August 31st. In the month of September, 789 bills went to the Governor, and he had until September 30th to sign or veto any regular session bills, or they became law. In 2016, he vetoed a higher proportion of measures they sent to his desk, 159 of 1,059, or 15.01 percent, than he had rejected in any of his previous 13 years in the governorship.

The newly elected Legislators were sworn-in on December 5th and will reconvene on January 4th for the first year of the 2017-18 Session. The new session will be likely to be dominated by the confrontation between California's Democratic political leaders and the Republican White House and Congress over issues such as climate change, the Affordable Care Act and immigration. On the first day back, bills were introduced to fund legal services for immigrants, allocating money for training public defenders in immigration law, barring providing the federal government with religious information that could be used for a data base of American Muslims, letting Californians vote down a border wall and prohibiting the state from contracting with for-profit immigrant detention companies.

Assemblymember Jim Frazier and Senator Jim Beall have each introduced their own transportation funding proposals in the form of AB 1 (Frazier) and SB 1 (Beall) on the first day of the 2017-18 Session. The legislation proposes an additional \$6 billion annually for road repairs and mass transit, the \$6 billion dollars in revenue would be created by increases to taxes on gas, diesel, and vehicle fees.

The last day to submit bill requests into the Office of Legislative Counsel is January 20th, therefore any bills that the County wants to propose have to be submitted by a Legislator who is carrying the bill before then. The County is looking to reintroduce the former AB 514 that was carried by former Assemblymember Das Williams in 2015, which would allow Counties to assess larger administrative fines for violations of county ordinances that govern building and safety, brush removal, grading, film permitting and zoning. We are currently in discussion with the County's Legislators about carrying the legislation.

Special Sessions

Transportation:

Caltrans, the state's Transportation Department, maintains 50,000 lane-miles of highway and nearly 13,000 state-owned bridges. While the repair, maintenance and efficient operation of the state's highway system are vital to the state's continued economic growth, current funding fails

to adequately fund this necessary work. The state's current fuel excise tax is sufficient to fund only \$2.3 billion of work—leaving \$5.7 billion in unfunded repairs each year.

In June 2015, Governor Brown called for a special session in order to address the outstanding issue of transportation funding. He proposed that the Legislature 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.

The 2016-17 state budget had no changes in the funding to the ten-year \$36 Billion transportation plan from January 2016. In the plan the Governor proposed that they reinstate truck weight fees, increase VLF by \$65.00 per vehicle and an increased gas tax.

In August 2016, Assemblymember Jim Frazier and Senator Jim Beall introduced joint companion transportation funding bills, which were in the form of SB X1-1 and AB X1-26. In order for them to have passed, the legislation would have needed to receive support from the Senate and Assembly Democratic caucuses and some Republicans in order to meet the 2/3rds vote requirement for new taxes before the end of the special session on November 30, 2016.

Unfortunately, on November 22nd, Governor Jerry Brown, Senator Pro Tem De Leon and Speaker Rendon announced through a letter addressed to "Dear valued stakeholder," that a vote will not take place before the end of the special session. The letter stated, "While there will not be a lame-duck session of the Legislature to approve a transportation funding deal in 2016, our work on this critical issue continues...The Administration, Assembly and Senate are all committed to tackling this issue early in the new year to address our critical infrastructure and transportation needs – and we'll need your continued support."

Although the Legislature was not able to reach a deal on transportation before the November 30th deadline, Assemblymember Jim Frazier and Senator Jim Beall have each already introduced their own transportation funding proposals in the form of AB 1 (Frazier) and SB 1 (Beall) on the first day of the 2017-18 Session.

AB 1 (Frazier) and SB 1 (Beall) proposes an additional \$6 billion annually for road repairs and mass transit, by readjusting the state's obsolete gas tax and reform the user-pays system to ensure all motorists contribute their fair share to the maintenance of the roads. Six billion dollars in revenue would be created by increases to taxes on gas, diesel, and vehicle fees. Among them:

- Increasing the per-gallon gas tax by 12 cents in phases over three years; 6 cents the first year to 9 cents in the second year and 12 cents in the third year. Ending Board of Equalization's annual adjustment of the price-based per-gallon gas excise tax rate to 17.3 cents. The two changes would raise \$2.9 billion annually.
- Increasing the diesel excise tax by 20 cents and the sales tax by 4 percent; raising \$853 million in revenue annually.
- Increase of \$38 in the annual vehicle registration fee with an inflation adjustment, as provided.
- Enacting an annual \$100 (Beall) or \$165 (Frazier) fee on zero-emission vehicles and increase annual registration fee for all vehicles by \$38 per vehicle, raising about \$1 billion annually.

Medi-Cal/Health Care/MCO Tax:

The Legislature and the Governor reached a deal on the MCO tax which was passed by the Legislature on February 29, 2016. SBX2-2, ABX2-1 and AB 133 – passed by both houses of the Legislature, that will result in a net tax cut, maintain more than \$1 billion in critical federal funds, reduce debt by more than \$400 million and direct approximately \$300 million in new funding to help those with developmental disabilities. The bills were signed by the Governor in March.

Budget

The Governor signed the 2016-17 state budget on June 27, 2016. The budget package consisted of \$167 billion dollars, some of the highlights included doubling California's Rainy Day Fund, implemented the state's new \$15 per hour minimum wage by raising the wage to \$10.50 per hour beginning on January 1, 2017, and increased funding for K-12 and community college funding by \$71.9 billion in 2016, which is the highest level in state history and a \$24.6 billion increase since 2011-12. Many key budget issues for local governments were successfully addressed in the 2016-17 state budget. The local government budget highlights include:

- \$270 million for jail construction grants.
- \$25 million in grants for hard to site criminal justice facilities to cities and counties.
- \$127.3 million for group home reform.
- \$10 million in State Responsibility Area Fire Prevention Fund grants, including \$5 million in grants to local governments specific to tree mortality and tree removal and \$5 million for general fire prevention.
- \$11 million to assist in the removal and disposal of trees in high hazard zones.
- \$30 million to support local jurisdictions using the California Disaster Assistance Act Program for tree mortality and other disasters.
- \$644,000 for PILT (Payment in Lieu of Taxes).
- \$2.5 million for Williamson Act.
- Nearly \$400,000 in state backfill for counties with insufficient ERAF.

Currently, the Governor and the Department of Finance are putting the final touches on the 2017-18 Budget. In January 2017, the Governor will give his annual State of the State address and will release the state budget around January 10th. The Legislators will then begin working the state budget through the sub-committee budget process.

No Place Like Home: The No Place Like Home Initiative, which became a budget trailer bill, AB 1618 *Mental Health Services* was debated and tweaked until the end of June 2016, and was passed the last week of June 70-7 in the Assembly, and ultimately signed on July 1st by the Governor.

No Place Like Home divides potential bond funding into a competitive pot of \$1.8 billion and a non-competitive pot of \$200 million, which counties will compete for within their own population tier with Los Angeles being in a tier of their own.

The financing portion of the No Place Like Home program was released on August 9th in the form of AB 1628. The bill indicated that the California Health Facilities Financing Authority (CHFFA) will sell the bonds and utilize MHSA funding to finance those costs, while the Department of Housing and Community Development (HCD) will receive the bond revenue and develop the guidelines for disbursing the money to the counties, as well as be held accountable for housing built.

This program is currently in the development stage, but there is a preliminary timeline that the Department of Housing and Community Development has developed. Currently, the initial research and stakeholder outreach, and the development of an advisory committee have started. During this time, the Governor's office is taking applications for six appointments for an overall fifteen member advisory committee. It is not determined when the Governor will choose the appointees. Going forward, the release of the framework and public comment will begin in the winter of 2016/2017. In the spring of 2017, the Department will start to develop the guidelines for the program.

Governor's By-Right Proposal: The County had opposed the Governor's "by-right" proposal, which would have shortened the approval process and in some cases, eliminated the need for additional environmental review in order to increase housing supply by creating general criteria for affordable housing to be built. The proposal created opposition from Labor and Environmental groups, as well as the Assembly Democratic Caucus and Speaker Anthony Rendon, who had confirmed that the proposal will be dead for 2016. The proposal will be up again for discussion in 2017 as Assembly Democrats still have interest in receiving the \$400 million for affordable housing.

Cap and Trade: The Cap and Trade legislation package was passed in the Legislature right before the final recess and signed by the Governor on September 14, 2016. It will direct \$900 million in cap-and-trade funds to greenhouse gas reducing programs, while placing \$462 million in a reserve account for future years. The legislation includes SB 859 (Budget Committee) which includes a plan to produce more biomass energy by requiring retail sellers of electricity to purchase a total of 125 megawatts of power from biomass facilities that generate power from forest waste in areas impacted by tree mortality, and AB 1613 (Budget Committee) which details the \$900 million cap-and-trade investments and provides provisions for the expenditure appropriation, as well as legislation that benefits disadvantaged communities such as AB 1550 (Gomez) which requires at least 25% of funds from the Greenhouse Gas Reduction Fund proceeds to go to projects that would benefit disadvantaged communities, and AB 2722 (Burke) which directs cap-and-trade funds to a competitive grant program in the Strategic Growth Council for greenhouse gas emission reduction projects for disadvantaged communities.

Some highlights include:

- \$40 million to programs that increase waste diversion and help reduce methane emissions from landfills
- \$135 million to the Transit and Intercity Rail Program
- \$7.5 million for the Healthy Soils Program
- \$7.5 million for the State Water Efficiency and Enhancement Program

- \$40 million to the Department of Forestry and Fire Protection, including: \$25 million for the Healthy Forest Program; and \$15 million for urban forestry programs

Bills of Interest to the County

AB 45 (Mullin) This bill was opposed by the County. The bill would have mandated cities and counties that provide residential collection and disposal of solid waste to create a household hazardous waste (HHW) baseline and to meet an unspecified diversion requirement for HHW collection. The bill was opposed by many cities and counties. The bill was pulled by the author in the Senate Environmental Quality Committee on June 29, 2016.

AB 1564 (Williams) This bill will require the Office of Emergency Services (Cal OES), the California Highway Patrol (CHP), and county coordinators to review the states routing of 911 calls. The bill passed the Senate Appropriations Committee 10-0 on August 1st, and continued to pass the Senate Floor 38-0. The Senate amendments were concurred in by the Assembly on August 22nd and the bill was approved by the Governor on August 30th to become law. The County was in support of the bill.

AB 1825 (Gordon/Maienschein) This bill will provide more local control and allow shelters to follow best practices to assess dogs upon entering them. Under current law the label of “vicious dog” is automatically applied to dogs seized under the penal code. Many dogs that are seized under this section, such as from a breeder that is connected to animal fighting, do not pose a risk and are perfectly safe for future adoption. The bill passed the Senate third reading on June 30th and was approved by the Governor on July 25th to become law. The County was in support of this bill.

AB 1853 (Cooper) The County was in opposition to the bill. The bill would have reduced local control by allowing retirement systems operation under CERL to operate independently from its respective county without an input from the county Board of Supervisors. The Governor vetoed the bill on September 23, 2016, explaining that the bill is too far-reaching, and a more collaborative approach would better serve the public interest.

AB 2501 (Bloom) Initially, the bill would have restricted information that local jurisdictions could request from developers and would have imposed shorter timelines for review and approval of density bonus applications. Although the bill was approved by the Governor, the Author took amendments that eliminated the arbitrary timeline for review and does not prohibit a local government from requiring an applicant to provide reasonable documentation to establish eligibility for a requested density bonus, incentives or concerns, waivers or reduction of development standards and parking ratios.

AB 2616 (Burke) The bill originally would have added three additional Coastal Commission Members to work directly on issues with communities that are burdened by high levels of pollution, but Senate amendments eliminated the increase in the Commission membership and instead specified that one of the Governor’s existing appointees be required to work directly with communities in the state that are most burdened by high levels of pollution and issues of

environmental justice. The Governor approved the bill on September 24, 2016. The County has had already changed their position to support.

AB 2729 (Williams) The County supported this bill. In large, this bill will increase idle oil and gas well fees and indemnity bonds to provide a disincentive for operators to maintain large numbers of idle wells. Currently, there is not a high incentive for operators to terminate their abandoned wells and this could cause potential danger to life, health or natural resources, this bill will increase fees to provide incentive to close the wells. The bill was approved by the Governor on September 9th to become law.

SB 122 (Jackson, Hill and Roth) This bill was a vehicle for potential CEQA reform. The bill will require the lead agency, at the request of a project applicant and consent of the lead agency, to prepare a record of proceedings concurrently with the preparation of a negative declaration, mitigated negative declaration, EIR, or other environmental document for projects. The bill will state the intent of the Legislature to enact legislation establishing an electronic database clearinghouse of notices and environmental document prepared pursuant to CEQA, establishing a public review period for a final environmental impact report, and relating to the record of proceedings for a project for which an environmental impact report is prepared pursuant to CEQA. This bill was on the Assembly Suspense File since 2015, and had passed out of Assembly Appropriations 11-3 on August 12th, 2016. The bill was concurred in Assembly Amendments in the Senate, and was approved by the Governor on September 22nd to become law. The County supported the bill.

SB 233 (Hertzberg) AB 2503 (Perez) Chapter 687, 2010, established a program under which an offshore oil platform owner is allowed to partially remove a platform, leaving behind some of the underwater structure for marine habitat, known as the “rigs to reefs” program. The California Marine Resources Legacy Act passed with much consideration across the state and included relevant stakeholders and agencies to address the issues surrounding oil platforms remaining in the ocean off the coast of California. SB 233 would have modified the California Marine Resources Legacy Act regarding the application process to allow the partial removal of an offshore oil structure. The County was opposed to SB 233 due to being unnecessary. The measure was a two-year bill, and had been sitting in the Assembly Appropriations Committee since 2015. The bill was held in Assembly Suspense, and is dead for the year.

SB 867 (Roth) This bill will allow the Richie Pediatric Trauma Fund to continue past its sunset date of January 1, 2017. This bill authorizes a county to continue to establish an EMS Fund to be used to reimburse physicians and hospitals for patients who do not make payment for emergency medical services, which would allow the County’s Public Health Department to continue to distribute pediatric trauma funds to support local pediatric trauma services. The County was in support of this bill. The bill passed the Senate and was approved by the Governor on August 19th to become law.

SB 876 (Liu) This bill would have allowed unregulated camping on any public space, creating encampments. The “Right to Rest” is the campaign behind the measure. The bill was heard on March 29 and died in committee. The County was opposed to the bill.

SB 941(Mitchell) The purpose of the bill was to eliminate fiscal liabilities to parents, guardians and minors for costs associated with a minor's involvement in the juvenile justice system. The bill would have removed local control, and essentially caused a negative fiscal impact on the County. The County opposed the bill as it would have removed the County's ability to send Institution accounts to the FTB Court Ordered Debt leaving accounts uncollectible, and repealed the \$100 per day fee for parents who refused to pick up minors from Juvenile Hall or Los Prietos Boy' Camp. The bill was held in the Senate Appropriations Suspense File.

SB 968 (Monning) The County was in support of the bill. The bill will require PG&E to submit to the California Public Utilities Commission an assessment of the adverse economic impacts that could occur in the San Luis Obispo County region if the Diablo Canyon Nuclear Power Plant were to shut down. The bill was approved by the Governor on September 26th.

SB 1229 (Jackson) This bill will establish a duty of care for pharmacies that host secure drug take-back bins for prescription and over the counter drugs that are left over from treatment or have expired. The County supported the bill. The bill was approved by the Governor on August 29th to become law.

Propositions of Interest to the County

Marijuana Legalization – PROP 64 - PASSED

The campaign was supported by Lt. Gov. Gavin Newsom and funded by billionaire activist Sean Parker. The passage of Prop 64 has legalized marijuana under the California state law for use by adults 21 or older, and has designated state agencies to license and regulate the marijuana industry. It has also imposed state excise tax of 15% on retail sales of marijuana. The financial impact of Prop 64 is expected to be large; Legislative analysts have estimated additional state and local tax revenues ranging from hundreds of millions of dollars to over \$1 billion annually. Although, the tax money will not come in right away, the new law consists of establishing and regulating the licensing, sale and tax collection needed to oversee the industry. Retail licenses are estimated to be available mid-2017 or as late as January 2018. Although passed statewide, local governments still have a lot of power and are able to ban commercial marijuana transactions by ordinance, and if they decide to approve marijuana businesses, they have the power to regulate them through zoning laws.

The passage of Prop 64 is still not consistent with the federal policy on marijuana. The newly appointed U.S. Attorney General, Jefferson Sessions has been open about opposing the legalization of marijuana. This will create a conflict between Federal and State rules including issues with banking, finance, collecting taxes and the increased risk of crime. Specifically, the Federal law will be able to threaten the marijuana industry with criminal charges if they go through a bank, which in result will create issues with money laundering and an increase in robberies. Treasurer John Chiang has submitted a letter to President-Elect Trump and Congress to address fiscal safety, and a request for an agreement to have access to banks for the cannabis industry. The Treasurer has also created a cannabis banking working group that consists of taxing agencies, bankers, law enforcement agencies and other cannabis advocates in order to address upcoming issues. Our office will continue to monitor and address emerging marijuana issues to the County.

Income Tax Increase - PROP 55 - PASSED

The passage of Prop 55 has extended the Prop 30 temporary personal income tax increases enacted in 2012 by 12 years on earnings over \$250,000 for funding education and health care programs. The original tax increase was supposed to expire in 2018, but will now be extended through 2030. The extension will bring in around \$4 billion to \$9 billion a year, in which about half of will go to schools and community colleges, up to \$2 billion a year to Medi-Cal funding, and up to \$1.5 billion to pay off existing debt. The sales tax increase that had been included in the previous Prop. 30 will not be extended, so sales taxes should drop by a quarter percent by the end of 2016.

The Department of Finance previously believes that the extension of the income tax increase will give California more balance and stability in the state budget.

Tobacco Tax – PROP 56 - PASSED

The proposal raises taxes on cigarettes by \$2.00 per pack, with an equivalent increase on other tobacco products and electronic cigarettes containing nicotine. The money collected will be used to finance health care, cancer research, and smoking prevention.

The state will collect between \$1.3 and \$1.6 billion in the first year of the tax, but the money collected could be lower in the future if people buy fewer tobacco products.

Conclusion

The Legislature adjourned the 2015-16 Session, and has sworn-in the newly elected Legislators on December 5th. Overall, the new session will see more Democrats, with Democrats holding a 2/3 majority in both Houses. There will be 22 new Members of the State Assembly and nine new Members in the State Senate. A significant number of Members, particularly in the Senate were forced out by term limits. Members elected in 2014 and this year serve under the new term limits law which will allow them to serve 12 years in the same House which should result in more Members staying put. We are in the process of setting up meetings with the newly elected and the incumbent County Legislators in order to discuss the 2017 platform and priorities.

The Governor had about 800 bills on his desk in 2016, which he had to act on by the September 30th deadline. The County had much success in 2016, with many local issues addressed through both the budget and legislation.

The Legislature will return to Sacramento on January 4th, 2017 and will focus on submitting bill introductions into the Office of Legislative Counsel before the January 20th deadline, as well as the Governor's budget which will be released on or before January 10th. As always, should you or your staff have any questions, please don't hesitate to let us know.