



# Coleman & Friends

The Latest in Municipal Finance Law and Policy Advocacy



## Michael's Friends

Nick Romo

- Cal Cities
- Legislative Affairs, Lobbyist Revenue and Taxation
- [nromo@calcities.org](mailto:nromo@calcities.org)



Kyle Packham

- California Special Districts Association
- Advocacy and Public Affairs Director
- [kylep@csda.net](mailto:kylep@csda.net)



# Back to 2022: Legislative Year in Review

## 2022-23 State Budget Act (AB 178, Ting)

**Total 2022-23 Expenditures: \$300.7 billion**

**State surplus of \$97.5 billion**

- \$49.2 billion for discretionary expenditures

**\$37.2 billion in budgetary reserves**

- Prepay billions in state debts
- Supplemental deposits into “Rainy Day” Fund



## Tax exemptions

### **AB 2622 (Mullin) Sales and Use Tax: Zero Emission Bus Exemption**

This measure extends until 2026 the sales and use tax exemption provided to cities, counties, and transit agencies for zero emission transit buses.

## Unpaid Water Service Bills

### **Where we are in 2023**

- Water Shutoff Protection Act (SB 998 of 2018)
- Pandemic and Moratorium on Service Terminations (closed 2021)
- California Water and Wastewater Arrearage Program (closed 2022)
- Low Income Household Water Assistance Program
- Vetoed Water Rate Assistance Program (SB 222 of 2022)

# Connection Fees and Capacity Charges

## **AB 2536 (Grayson)**

Slightly amends the process by which local agencies may impose water and sewer connection fees and capacity charges. Clarifies that local agencies must evaluate the amount of such fees and that the evaluation must include evidence to support that the fee does not exceed the reasonable cost of service consistent with Government Code Section 66013(a).

# New Local "Gann" Limit Reporting Requirement

## **Expanded Definition of "State Subvention"**

The 2022-23 state budget included changes to the statutory definition of a "state subvention" to shift funds to count under the local state appropriations limit calculations and bring the state's General Fund expenditures below statutory spending requirements ([Government Code Section 7903](#)).

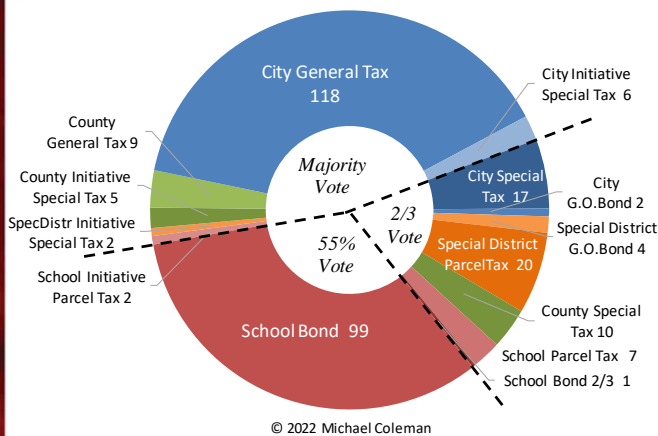
**Required annual calculation and reporting of excess past local limit** Local agencies must identify (commencing with FY 2021-2022) and report any new state subventions that would cause that entity to exceed its own appropriations limit so that the state can continue to count those amounts at the state level instead.

**CA Dept. of Finance Guidance Letter and Revised March 1, 2023 Deadline**

# November 2022 Local Tax Measure Results

# VOTE

## Local Tax & Bond Measures November 2022



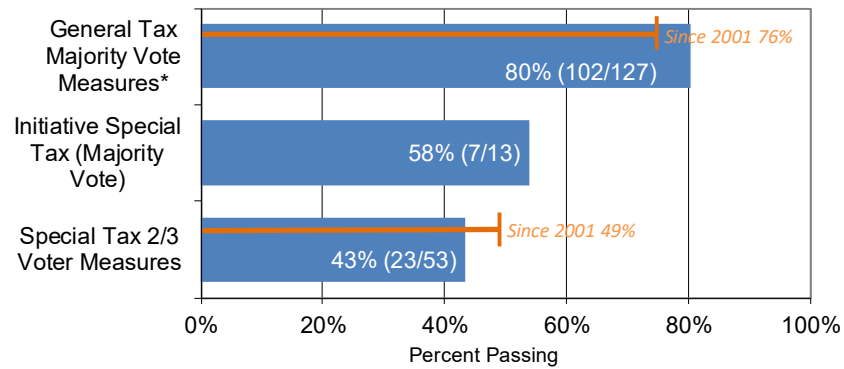
- ✓ 302 tax and bond measures (plus 170 others: land use, term limits, appoint clerk/treasurer, etc.)
- ✓ 143 city, 24 county, 26 special district, 109 school
- ✓ 15 Special Taxes by initiative (majority vote)



# Summary Results

## Most non-school majority vote general tax measures passed

City, County, Special District Tax & Bond Measures November 2022



Source: [CaliforniaCityFinance.com](https://california-city-finance.com); Michael Coleman. [coleman@muniwest.com](mailto:coleman@muniwest.com)

# What to Expect in 2023



Lots of New Faces  
and Ideas

600 Bills.... and  
counting

## ACA 1 (Aguiar-Curry)

**Local government financing: affordable housing and public infrastructure: voter approval.**

A constitutional amendment that would lower the necessary vote threshold from a two-thirds supermajority to 55 percent to approve local general obligation bonds and special taxes for affordable housing and public infrastructure projects – includes water, flood, and coastal projects.

## AB 39 (Grayson)

### **Digital financial asset market: regulatory oversight.**

Would increase state oversight and consumer protection regarding blockchain technology and digital financial assets.

## AB 52 (Grayson)

### **Sales and Use Tax Law: manufacturing equipment: research and development equipment.**

Would expand the sales and use tax exemption for manufacturing and research and development equipment.

- AB 1951 (Grayson;2022) vetoed



## AB 84 (Ward)

### **Property tax: welfare exemption: affordable housing.**

Would expand eligibility for exemptions from property taxes for affordable rental housing (e.g. “welfare exemptions”).

## Proposed 2023-24 State Budget

**Overall, the Governor’s proposed \$297 billion budget:**

- Forecasts a **deficit** of \$22.5 billion in 2023-24.
- Assumes continued but slowing economic growth; does not assume a recession.
- Does not propose to draw from the state’s \$35 billion in reserve accounts to close the budget gap.



## Proposed 2023-24 State Budget

**Overall, the Governor's proposed \$297 billion budget:**

- Does not include *redirection* of local funds to address state budget shortfalls.
- Does not include deep cuts to ongoing programs.
- Upholds most commitments made in the 2022 Budget Act.
- *However...*



## Proposed 2023-24 State Budget

**Overall, the Governor's proposed \$297 billion budget:**

- ✗ Does not include new, ongoing funding to address the housing supply and homelessness.
- ✗ Removes or reduces some funding for housing programs.
- ✗ Pauses investments in workforce development.
- ✗ Includes adjustments that impact climate and transportation programs.

# Proposed 2023-24 State Budget

**The 2023-24 budget proposal reflects the volatility of state revenues and downstream effects of inflation and the federal reserve's response.**

- Lacks backfill of insufficient ERAF (property tax) to 4 counties and their cities (growing issue)
- No *new* tax relief/exemption programs
- Focus on keeping California competitive (film/tax credit, CalCompetes, new employment credit).

## Fiscal Policy Issues in 2023

- New tax exemptions
  - Manufacturing equipment, market rate housing, clean energy production, zero-emission vehicles
- Borrowing and Delays
- State preemption of short-term rental tax collection

## Fiscal Policy Issues in 2023

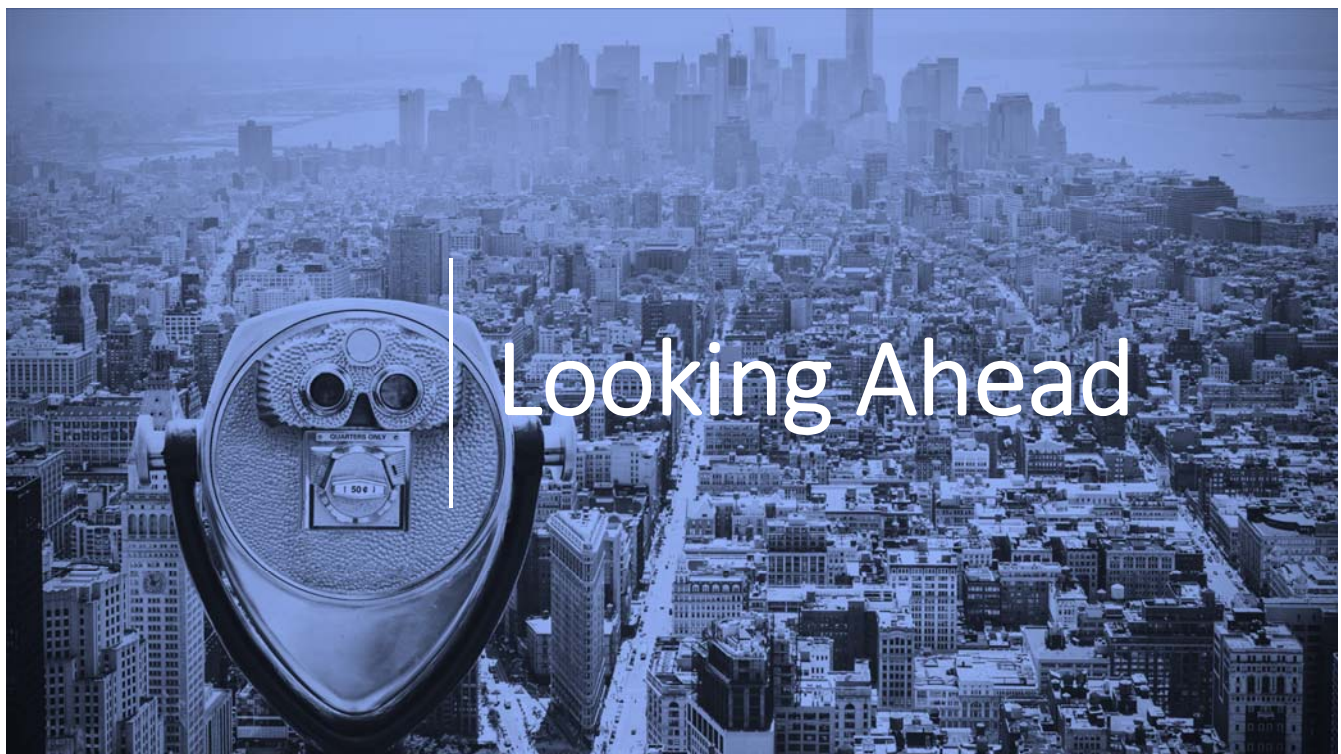
- Property Tax In-Lieu of VLF: ERAF, annexations/incorporations
- New Bonds for Climate, Infrastructure, Housing?
- Will Federal funding save the day?
- 2024 Ballot measures
  - Tax and fee restrictions
  - Gann Limit Reforms

## Cal Cities budget requests

- Ongoing funding for cities to address the housing supply and homelessness: **\$3 billion.**
- State-Mandated Program Costs Owed to Local Governments: **Nearly \$1 billion.**
- Safeguard local revenues and support local governments' fiscal sustainability: **Priceless.**

## CSDA budget requests

- Support CalCities' efforts RE State-Mandated Program Costs Owed to Local Governments
- Finalizing Budget Priorities with Legislative Committee and Stakeholders, anticipate:
  - **Drought and flood, wildfire, healthcare, cybersecurity, and addressing homeless encampments impacting special districts.**





# Initiative #21-0042A1: *Limits Ability of Voters and State and Local Governments to Raise Revenues for Government Services. Initiative Constitutional Amendment*

## Brief Overview

### **Proponents**

California Business Roundtable

### **Initiative Summary**

- Adopts new and stricter rules for raising state and local taxes, fees, assessments, and fines/penalties.
- Limits voter authority and accountability.
- Significantly jeopardizes public services.
- Retroactive to January 1, 2022.
- Likely Qualifies for November 2024 Statewide Ballot.

## Restricts local tax authority

- New requirements for voter approval:
  - when applied to territory that is annexed.
  - when existing tax is applied to a new service or product, for example utility user tax (UUT) to new service.
- Requires a sunset date on all new taxes.
- Raises the vote threshold from a simple majority to a two-thirds supermajority for special taxes proposed by initiative (*reversing the Upland decision*).

## Restricts local tax authority

- Voters may not amend a City Charter to impose, extend, or increase a tax or fee.
- Local advisory measures are prohibited.

## Restricts local fee authority

- Changes Prop 218's "reasonable" requirement to severely restrict fees by limiting them to "actual cost" of providing the product or service for which the fee is charged.
  - "Actual cost" is defined as the "minimum amount necessary."
    - Examples include planning services, excavation and encroachment permits, preparation of candidate statement, and permit parking.
- Adds new provision to Constitution that all fees must be "reasonable to the payor" without defining what "reasonable" is.
- Changes legal standing from "preponderance of the evidence" to "clear and convincing evidence" to prove a fee or charge is not a tax and does not exceed "actual cost."

## Restricts local fee authority

- Significantly jeopardizes franchise fees.
- Prohibits a fee or charge or exaction regulating vehicle miles traveled being imposed as a condition of property development or occupancy.
- Significantly jeopardizes authority to impose fines and penalties.

## Fiscal impacts

- Approximately **\$2 billion of revenues** each year from fees and charges, ***subject to legal peril***.
- Many tax measures approved 2022-2024 will need to be resubmitted to voters to comply - and reapproved. About **\$2 billion** of annual revenue at risk.
- Related public service reductions across virtually every aspect of city, county, and special district services.
- **Loss of hundreds of millions of dollars** for general tax supported services from lower success rates due to provisions preventing cities and counties from providing explanatory information.

## Core Impacts

- Far-reaching measure that would **disrupt every level of government service**.
- Measure would **cost billions every year** in reduced funding for local services.
- Majority of changes **would benefit corporations**.
- Imposes a **race-to-the-bottom** that could halt investments that future generations depend upon.
- Measure would **create legal chaos and fiscal uncertainty**.