



May 16, 2016

To: Nicholas E. Chiulos, Assistant County Administrative Officer

Fr: John E. Arriaga, JEA & Associates

Re: State Report

May Revise

Due to the fact that the May Revise was released after the completion of the State Report an amendment will be attached

Legislative Update

With less than four months before session adjourns, the Legislature has been extremely busy with moving close to two-thousand bills through the committee process. Since the last Legislative Committee, the County has been active in taking positions on thirteen bills and is watching many others as noted in the bill track. The following are the County positions thus far:

- AB 21 (Wood) - Medical marijuana: cultivation licenses SUPPORT
- AB 120 (Committee on Budget) – Budget Act of 2015: Elections SUPPORT
- AB 1585 (Alejo) - Monterey County Water Resources Agency: Lake Nacimiento and Lake San Antonio SUPPORT
- AB 1758 (Stone) - Telecommunications: California Advanced Services Fund SUPPORT
- AB 2319 (Gordon) - California Infrastructure and Economic Development Bank SUPPORT
- AB 2475 (Gordon) - Loan program: California Infrastructure and Economic Development Bank SUPPORT
- AB 2561 (Committee on Veterans Affairs) - Veterans cemeteries SUPPORT
- AB 2734 (Atkins) - Local Control Affordable Housing Act SUPPORT
- SB 974 (Committee on Local Government) - Local government: omnibus (FORA Representation SUPPORT
- SB 1170 (Wieckowski) - Public contracts: water pollution prevention plans: delegation OPPOSE
- SB 1188 (McGuire) - Wildlife management areas: payment of taxes and assessments SUPPORT
- SB 1197 (Cannella) - Intercity rail corridors: extensions SUPPORT
- SB 1250 (McGuire) - Telecommunications: major rural outages: notifications and reporting SUPPORT

Please refer to the Legislative/Issues Track for further details on the bills

One bill that we would like to highlight is AB 120 (Assembly Committee on Budget), which was signed by the Governor on April 29th and appropriates \$16.3 million from the 2015-16 Budget Act to respond to an urgent request from the Secretary of State for resources for county elections offices. This request is the result of a confluence of two events. First, the hotly-contested Presidential primary is expected to generate record turnout on June 7, 2016, straining the resources of county voter registrars. Simultaneously, these offices are processing the petitions of ballot initiatives for the November 2016 ballot, which is expected to have a large number of initiatives for consideration. County Elections Offices can submit reimbursements to the State Controller on August 1st which is subject to an allocation formula by the Secretary of State based on the number of registered voters in the county. Additionally, in closed conversations with Senate Leadership, they indicated that they are open to supporting additional allocations after the June primary if needed.

Special Session Update

After the passage of the tobacco regulation package, the Legislature shut down its “special session” on healthcare. On May 4th, the Governor signed five out of six bills to strengthen the state’s tobacco laws, as well as regulate vaping. The bills would a) raise the age of smoking to 21, b) banning vaping in all places where smoking is prohibited, c) expanding smoke-free workspaces to include hotel lobbies, bars and banquet rooms, d) expanding eligibility of tobacco prevention funds to charter schools, and e) increases tobacco retailer license fee from a one-time \$100 to an annual \$265. The Governor did however veto a bill that would have permitted counties and cities to establish their own tobacco tax. His signature comes after weeks of negotiations with the tobacco industry, who threatened to hire a vast majority of the state’s signature gatherers in an effort to thwart the Governor and Legislature’s initiative efforts. A large remaining issue is the initiative effort, supported by the Governor and the Legislature, to increase the state’s tobacco tax from \$0.87 a pack to \$2. A recently released statewide poll shows that about two-thirds of voters support a tobacco tax.

On the flip side, the transportation special session has stalled, and advocates are moving swiftly to get some momentum going. Currently, there are three transportation infrastructure proposals; the Governor’s (January’s Proposed Budget), Senator Beall’s (SBx1 1) and Assemblymember Frazier’s (AB 1391). Due to the Republicans vowing to block any tax increase to fund the infrastructure repair, the special session has remained at a “stand-still” since January. However, according to insiders, Assemblymember Frazier presented his plan, in addition to Senator Beall’s bill, at the Assembly Democratic Caucus on May 5th, where he garnered huge support by his colleagues to make transportation funding a priority, as well as some Republicans in some one-on-one meetings. Additionally, he spoke about merging his bill and SBx1 1 into a new special session bill in hopes of being heard around Budget Conference Committee. Also, expect the Governor to tweak his proposal in the May Revise. Meanwhile, CSAC, business and labor groups will be holding a rally on May 19th during their legislative conference to support increased funding for transportation infrastructure. CSAC has not publicly supported any of the three proposals, but supports their adopted principle of a comprehensive transportation funding package with an equitable share going to local roads.

Healthcare Realignment

With the passage of healthcare realignment in 2013, AB 85 (Committee on Budget) laid out a framework of a new healthcare funding agreement between the State and counties, in light of the shifting cost pressures as a result of the Affordable Care Act. AB 85 stipulates that the State must

pay the counties for any differential costs for 2013-14 FY, also known as a “true up”. In the Governor’s proposed budget, the Administration did not want to expend \$152 million from the General Fund that it owed the counties, rather take less of the realignment dollars as it would have over a ten-month period. Specifically, the State owes Monterey County \$2.258 million, and rather than receive that lump-sum, which is what CSAC is advocating for, the State would just take \$225,800 less from our Healthcare Subaccount over the course of ten months. Both California Association of Public Hospitals (CAPH) and CSAC are arguing that this violates their original agreement of a lump sum and creates an accounting nightmare for many counties. JEA & Associates have had several meetings with CSAC staff regarding the particulars of this proposal and its specific impact on Monterey County. At this time, it is unclear if this proposal will remain in the May Revise or if the State finally agrees to expend the GF dollars owed to the counties. If it remains, CSAC has requested that Monterey work with them on an advocacy strategy, targeting Assemblymember Stone, in particular, as he was supportive of the counties during the AB 85 negotiations with the Administration.

Medical Marijuana

With the implementation of the medical marijuana regulations underway at the state and local levels, many outstanding issues remain. The first and foremost for many are the financial ramifications of a more robust medical marijuana industry and the possibility of legalizing recreational use. Nationwide, banks will not work with any sector of the marijuana businesses, resulting in a cash-only option. Last year, California’s medical marijuana industry generated \$2.7 billion in revenue; however, because of a lack in financial tracking, that number remains in question. Regardless, the Board of Equalization (BOE) tax officers were besieged with large cash deposits that have put their employees and offices in potential harm. Aside from the tax issue, there is great concern from all parties of the public safety consequences due to an expanded medical marijuana growth and potential legalization of all uses.

Any remedy though, must come from the federal government, as states do not regulate banks or establish guidelines for the FDIC. One of the architects of last year’s regulation package, Assemblymember Bonta introduced AB 1575, which would require the BOE, in conjunction with several other state departments, law enforcement, state and federal banking regulators, and other stakeholders to examine strategies such as integrated-point-of-sale systems with state track and trace systems with the hope of improving the state’s ability to financially monitor the medical marijuana businesses. This lack of clarity is of concern for Monterey County, and as such, Supervisor Potter will be meeting with Assemblymember Stone on June 24th to discuss this issue and possible options to mitigate harm as the County moves forward with their medical marijuana ordinances.

Legislative/Issues Track

Currently, the County has positions on thirty-one (31) bills which include some carried over from last year that are still moving through the legislative process and newly introduced legislation. As mentioned in the Legislative Update, the County continues to work with JEA & Associates on monitoring legislative introductions and amendments that directly impact the County and bring them forth to the Legislative Committee.