



August 26, 2016

To: Nicholas E. Chiulos, Assistant County Administrative Officer

Fr: John E. Arriaga, JEA & Associates

Re: State Report

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## **Budget Update**

The latest monthly revenue report from the Department of Finance shows lackluster revenue performance for the month of July. For current fiscal year-to-date, total General Fund revenues are down about \$330 million (5 percent). July 2016 had fewer tax collection days when compared to July 2015, which may explain some of the weak year-over-year growth. July revenues were up 0.6 percent when compared to July 2015, but overall below the month's budget estimate.

There is some good news included in the July numbers: sales taxes came in \$22 million (1.5 percent) above projections, and other general fund revenues (including insurance, estate, alcoholic beverages, tobacco taxes, pooled money interest, and vehicle license fees) came in on target.

The largest gap came from personal income taxes, which came in \$278 million (6 percent) below projections. The vast majority of this discrepancy (\$247 million) comes from income tax withholdings; July is not a major month for estimated or final income tax payments. The decrease in income tax revenues reverberates through many different policy areas. Among other impacts, the transfer to the Mental Health Services Fund (MHSF) for the month of July was reduced by \$5 million, since Prop 63 requires 1.76 percent of total monthly personal income tax collections go to the fund.

Other major state revenues were also below projections: corporation taxes came in \$57 million (20.7 percent) below forecast, and the “other revenues” category was \$16 million (28.3 percent) below forecast.

Other economic indicators are mixed. The unemployment rate increased slightly to 5.4 percent, representing the first time this indicator has increased in nearly six years. The monthly average for jobs gained is slightly slower than the first half of 2015. Housing permits decreased, and the average permits for the first half of 2016 shows no improvements over the first half of 2015. Nonresidential construction valuation decreased from June to July, but showed improvement over the same time period in 2015. Sales of existing single-family homes increased and represents the highest month-over-month growth in over five years, though the median price decreased very slightly.

## **Legislative Update**

With the Legislature just days away from adjourning the 2015-16 Legislative Session, members and advocates are scrambling to conclude this year’s work, with some notable priorities still remaining in the process (*see below*).

The County has been active in taking positions on fifteen bills and recently added six budget items. Since the last legislative report, the County has taken a support position on AB 2150 (Santiago), which provides for changes to eligibility determination and redetermination for subsidized child care for purposes of promoting continuity of service; and SB 879 (Beall), which places a \$3 billion housing bond on the November 2016 ballot. The following are the County position bills that are currently still active in the legislative process or signed by the Governor are:

- **AB 21** (Wood) - This bill repeals a March 1, 2016 deadline by which cities and counties must act on ordinances to regulate or ban medical marijuana cultivation and allows local governments to exercise their police powers over certain cultivators of medical marijuana. Location: Signed by Governor **SUPPORT**
- **AB 120** (Committee on Budget) – Amends the 2015-16 Budget Act to provide the Secretary of State an additional \$16.3 million for unexpected costs related to the 2016 elections. Location: Signed by Governor **SUPPORT**
- **AB 1585** (Alejo) - Appropriates \$10 million from the General Fund (GF) to the Monterey County Water Resources Agency (MCWRA) for construction of a water conveyance tunnel between Lake Nacimiento and Lake San Antonio in Monterey and San Luis Obispo Counties. Location: This bill was recently amended into SB 831. **SUPPORT**
- **SB 879** (Beall) – This bill enacts the Affordable Housing Bond Act of 2016, which authorizes the sale of \$3 billion in general obligation bonds, upon approval by voters at the November 8, 2016 statewide general election. The bill further creates the Affordable Housing Bond Act Trust Fund of 2016 (Fund), and states the Legislature's intent that all bond proceeds be deposited in the Fund. Location: Assembly Third Reading **SUPPORT**

- **SB 974** (Committee on Local Government) - Would allow the congressman, state senator, and state assemblymember whose districts include the majority of Fort Ord to appoint representatives to Fort Ord Reuse Authority's (FORA) board. Location: Assembly Floor Consent Calendar **SUPPORT**
- **SB 1188** (McGuire) – Requires, instead of authorizes, the Department of Fish and Wildlife (department) to pay annual in lieu payments and specified assessments to counties in which wildlife management areas are located. Location: Enrollment and Engrossing **SUPPORT**

### **No Place Like Home –**

The second act to implement the financing portion of the new No Place Like Home program was released last Tuesday in the form of twin budget bill vehicles: AB 1628 and SB 858. These bills, both approved by the budget committees in their respective houses this week, outline the path for diverting Mental Health Services Act funds to finance and repay up to \$2 billion in bonds. The proceeds from those bonds will be available to counties for building or refurbishing permanent supportive housing units for those who are chronically homeless and living with mental illness.

The budget bills indicate 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 counties.

AB 1618, which was signed into law by the Governor in June, already outlines the eligibility and criteria for counties to participate in the program, but HCD will also need to develop a significant amount of guidelines – in consultation with the counties – before the money will actually flow to counties.

### **SB 879 (Beall) – Housing Bond –**

This bill enacts the Affordable Housing Bond Act of 2016, which authorizes the sale of \$3 billion in general obligation bonds, upon approval by voters at the November 8, 2016 statewide general election. The bill allocates funds from the Fund to the following accounts, when the bonds are issued and sold:

\$1.5 billion to the existing Multifamily Housing Program (MHP) to assist in the construction, rehabilitation, and preservation of permanent and transitional rental housing for persons with incomes of up to 60% of the area median income;

- \$600 million to the Transit-Oriented Development and Infill Infrastructure Account, which the bill creates within the Fund, and then allocates funds from the Account as follows:
  - a) \$300 million to the Transit-Oriented Development Implementation Fund pursuant to the existing Transit-Oriented Development Implementation Program.

- b) \$300 million to the Infill Infrastructure Financing Account, which the bill creates within the Account. These moneys are available, upon appropriation by the Legislature, for infill incentive grants to assist in the new construction or rehabilitation of infrastructure that supports high-density affordable and mixed-income housing in locations designated as infill.
- \$600 million to the Special Populations Housing Account, which the bill creates within the Fund, and then allocates funds from the Account as follows:
  - a) \$300 million continuously appropriated for transfer to the existing Joe Serna, Jr. Farmworker Housing Grant Fund.
  - b) \$300 million to the Local Housing Trust Fund Matching Grant Program Account, which the bill creates. These moneys are available, upon appropriation by the Legislature, to provide matching grants to local public agencies and nonprofit organizations that raise money for affordable housing, as specified by statute.
- \$300 million continuously appropriated for the existing CalHome Program to provide direct, forgivable loans for mortgage assistance.

This bill is on the Assembly Floor and has been passed out of the committees on a bipartisan vote, however, because it is a ballot measure, it needs a 2/3 vote.

### **“By-Right” Proposal –**

The Legislature has yet to take action on the Governor’s “by-right” housing proposal, and as of last Friday, the Speaker conceded defeat in moving it forward this year. You may recall that the Governor proposed statutory language to streamline the approval of certain housing projects that include affordable units as part of his May budget revision. While the legislative leadership and the Governor agreed to set aside \$400 million for housing priorities contingent upon agreement on the by-right proposal, the issue was not resolved along with the rest of the budget.

Among other provisions, counties will recall that the Governor’s proposal would require the approval of specified housing projects located on lands designated by local government for housing through a ministerial process. Essentially, if a housing project is consistent with the underlying zoning and other “objective standards” and includes specified percentages of affordable units, then the project would not require a discretionary permit. Such approvals are typically not subject to review under the California Environmental Quality Act (CEQA), nor do they require public hearings before the City Councils.

Housing has risen in prominence as a political issue in 2016, and \$400 million for affordable housing may be a strong incentive for the Legislature to seriously consider the Governor’s proposal. On the other hand, many interest groups have already come out in strong opposition to the proposal. Environmental and labor groups are concerned that by-right housing could be seen as an end-run around CEQA, while others have decried a loss of local government control and transparency.

Affordable housing advocates have complained that the proposal's mandated percentage of affordable units isn't stringent enough, nor is \$400 million a strong enough carrot to encourage action.

### **Transportation –**

Late last week, both Transportation Chairs unveiled a \$7.4-billion transportation, the latest effort to break through a yearlong logjam over the state's funding woes. The plan, highlighted by an increase of 17 cents per gallon in the gas tax, comes from Assemblyman Jim Frazier (D-Oakley) and Sen. Jim Beall (D-San Jose) in an attempt to unify the disparate proposals the pair had previously introduced in their respective houses.

The combined plan is more than double the Governor's \$3.6-billion proposal, which calls for a 6-cent gas tax hike. Last summer, the Governor called a special session of the Legislature to highlight the \$130-billion backlog in state and local road repairs, as well as the billions more in other transportation budget deficits. But lawmakers have made little progress, especially with gas tax hikes - which would require a bipartisan supermajority vote - on the table.

Republican lawmakers have previously shown little appetite for a tax increase, instead pitching a plan that would eliminate vacant state worker positions and reallocate existing dollars - including from the state's climate change programs - toward transportation spending.

The specifics of the deal are:

- A \$7.4 billion annual funding package to repair and maintain our state and local roads, improve our trade corridors, and support public transit and active transportation.
- A \$706 million repayment of outstanding transportation loans for state and local roads.
- Eliminates the BOE “true up” that causes funding uncertainty and is responsible for drastic cuts to regional transportation projects.
- Indexes transportation taxes and fees to the California CPI to keep pace with inflation.
- Reforms and accountability for state and local governments to protect taxpayers.
- Streamlines transportation project delivery to help complete projects quicker and cheaper.
- Protects transportation revenue from being diverted for non-transportation purposes.
- Helps local governments raise revenue at home to meet the needs of their communities.

### **New Annual Funding**

- State -- \$2.9 billion annually for maintenance and rehabilitation of the state highway system.
- Locals -- \$2.5 billion annually for maintenance and rehabilitation of local streets and roads.
- Regions -- \$534 million annually to help restore the cuts to the State Transportation Improvement Program (STIP).
- Transit -- \$516 million annually for transit capital projects and operations.
- Freight -- \$900 million annually for goods movement.

- Active Transportation -- \$80 million annually, with up to \$150 million possible through Caltrans efficiencies, for bicycle and pedestrian projects. ☐ Constitutional amendment to help locals raise funding at home by lowering the voter threshold for transportation tax measures to 55 percent.

### **Reforms and Accountability**

- Restores the independence of the California Transportation Commission (CTC).
- Creates the Office of Transportation Inspector General to oversee all state spending on transportation.
- Increases CTC oversight and approval of the State Highway Operations and Protection (SHOPP) program.
- Requires local governments to report streets and roads projects to the CTC and continue their own funding commitments to the local system.

### **Streamlining Project Delivery**

- Permanently extends existing CEQA exemption for improvements in the existing roadway.
- Permanently extends existing federal NEPA delegation for Caltrans.
- Creates an Advance Mitigation program for transportation projects to help plan ahead for needed environmental mitigation.

### **New Annual Funding Sources**

- Gasoline Excise Tax -- \$2.5 billion (17 cents per gallon increase)
- End the BOE "true up" -- \$1.1 billion
- Diesel Excise Tax -- \$900 million (30 cents per gallon increase)
- Vehicle Registration Fee -- \$1.3 billion (\$38 per year increase)
- Zero Emission Vehicle Registration Fee -- \$16 million (\$165 per year starting in 2nd year)
- Truck Weight Fees -- \$1 billion (Return to transportation over five years)
- Diesel Sales Tax -- \$216 million (3.5% increase)
- Cap and Trade -- \$300 million (from unallocated C&T funds)
- Miscellaneous transportation revenues -- \$149 million

### **Keeping Promises and Protecting Revenues**

- One-time repayment of outstanding loans from transportation programs over two years. (\$706 million)
- Return of truck weight fees to transportation projects over five years. (\$1 billion)
- Constitutional amendment to ensure new funding cannot be diverted for non-transportation uses.

While many are hopeful that a deal can come to fruition before the 31<sup>st</sup> deadline, others are speculating that this might get passed by a “lame-duck” session. The Legislature’s four caucuses always return two-days after a general election for internal affairs; therefore it is plausible that they could vote on something on November 10<sup>th</sup> prior to the new members being sworn in.

## **Initiative Update**

<b>Qualified Measure</b>	<b>Summary</b>	<b>Recommended Position</b>	<b>Notes</b>
<u>Prop. 52</u> State Fees on Hospitals. Federal Medi-Cal Matching Funds	Extends indefinitely an existing statute that imposes fees on hospitals to fund Medi-Cal health care services, care for uninsured patients, and children’s health coverage. <u>Fiscal Impact:</u> Uncertain fiscal effect, ranging from relatively little impact to annual state General Fund savings of around \$1 billion and increased funding for public hospitals in the low hundreds of millions of dollars annually.	Support	CSAC has taken a support position  The Legislative Committee recommended a support position to the Board. Board action has yet to be taken
<u>Prop. 53</u> Revenue Bonds. Statewide Voter Approval. [Cortopassi]	Requires statewide voter approval before any revenue bonds can be issued or sold by the state for certain projects if the bond amount exceeds \$2 billion. <u>Fiscal Impact:</u> State and local fiscal effects are unknown and would depend on which projects are affected by the measure and what actions government agencies and voters take in response to the measure’s voting requirement.	Oppose	CSAC Policy Committee is recommending an oppose position to the Board  This initiative was presented and discussed at the November 9, 2015 Legislative Committee – No position taken at that time
<u>Prop. 55</u> Tax Extension to Fund Education and Healthcare	Extends by twelve years the temporary personal income tax increases enacted in 2012 on earnings over \$250,000, with revenues allocated to K-12 schools, California Community Colleges, and, in certain years, healthcare. <u>Fiscal Impact:</u> Increased state revenues—\$4 billion to \$9 billion annually from 2019-2030—depending on economy and stock market. Increased funding for schools, community colleges, health care for low-income people, budget reserves, and debt payments.	Support	CSAC Policy Committee is recommending an support position to the Board
<u>Prop. 56</u> Cigarette Tax to Fund	Increases cigarette tax by \$2.00 per pack, with equivalent increase on other tobacco products and electronic cigarettes containing nicotine. <u>Fiscal Impact:</u>	Support/No Position	CSAC Policy Committee is recommending an

Healthcare, Tobacco Use Prevention, Research, and Law Enforcement	Additional net state revenue of \$1 billion to \$1.4 billion in 2017-18, with potentially lower revenues in future years. Revenues would be used primarily to augment spending on health care for low-income Californians.		support position to the Board
<u>Prop. 57</u> Criminal Sentences. Juvenile Criminal Proceedings and Sentencing	Proposition 57 would increase parole chances for felons convicted of non-violent crimes and give them more opportunities to earn credits for good behavior. It would also allow judges, not prosecutors, to decide whether to try certain juveniles as adults in court. <u>Fiscal Impact:</u> Net state savings likely in the tens of millions of dollars annually, depending on implementation. Net county costs of likely a few million dollars annually.	No Position	CSAC Policy Committee is recommending a “no position” to the Board
<u>Prop. 64</u> Marijuana Legalization	Legalizes marijuana under state law, for use by adults 21 or older. Imposes state taxes on sales and cultivation. Provides for industry licensing and establishes standards for marijuana products. Allows local regulation and taxation. <u>Fiscal Impact:</u> Additional tax revenues ranging from high hundreds of millions of dollars to over \$1 billion annually, mostly dedicated to specific purposes. Reduced criminal justice costs of tens of millions of dollars annually.	No Position	CSAC Policy Committee is recommending a “no position” to the Board
<u>Prop. 65</u> Carry-Out Bags. Charge	Redirects money collected by grocery and certain other retail stores through mandated sale of carryout bags. Requires stores to deposit bag sale proceeds into a special fund to support specified environmental projects. <u>Fiscal Impact:</u> Potential state revenue of several tens of millions of dollars annually under certain circumstances, with the monies used to support certain environmental programs.	No Position	CSAC Policy Committee is recommending an oppose position to the Board
<u>Prop. 67</u> Referendum to Overturn Ban on Single-Use Plastic Bags	A “Yes” vote approves, and a “No” vote rejects, a statute that prohibits grocery and other stores from providing customers single-use plastic or paper carryout bags but permits sale of recycled paper bags and reusable bags. <u>Fiscal Impact:</u> Relatively small fiscal effects on state and local governments, including a minor increase in state administrative costs and possible minor local government savings from reduced litter and waste management costs.	No Position	CSAC Policy Committee is recommending an support position to the Board

*Please see attachment for more details on the aforementioned initiatives.*

### **Legislative/Issues Track**

Currently, the County has positions on fifteen (15) bills and six (6) budget items. 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.