



## Staff Report

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**File #:** TMP-1402, **Version:** 1

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**MEETING DATE:**

July 14, 2020

**SUBJECT:**

LEGISLATIVE REPORT

**Recommendation**

NOTE AND FILE updates to legislation with an official City position.

**Board or Commission Action**

Not applicable

**Relevant Council Strategic Theme**

Planning for the Future

Good Governance

**Relevant Department Goal**

Not applicable

**Introduction**

The City Council adopted the 2020 Legislative Platform to guide the consideration of state and federal bills that affect City operations. In keeping with that direction, this report provides updates on legislation with an official City position.

**Discussion**

On Monday, June 15, the State Senate and Assembly passed the Legislature's compromise State Budget for FY 2020-21 and sent it to the Governor. The Legislature's initial budget rejected the Governor's proposed cuts in the May Revision and instead relied on assumed federal assistance, accounting maneuvers, and additional reserve usage. Negotiations between the Governor and Legislature on additional budgetary items continued beyond the June 15 passage of the Legislature's proposed State Budget.

On June 29, Governor Gavin Newsom signed into law the 2020 Budget Act - a \$202.1 billion spending plan that works to address the \$54.3 billion state budget shortfall caused by the COVID-19 recession. In January, the state was projecting a budget surplus of \$5.6 billion; by the May Revision, the state confronted a budget deficit of \$54.3 billion - a four-month swing of \$60 billion caused by the COVID-19 recession. The state budget closes the \$54.3 billion budget deficit and sets aside \$2.6 billion in the Special Fund for Economic Uncertainties, including \$716 million for the state to respond to the changing conditions of the COVID-19 pandemic.

The state budget reflects the estimated \$5.7 billion to directly respond to the COVID-19 pandemic. Additionally, the state budget includes the following in General Fund spending:

- \$85.6 million to CAL FIRE for firefighting resources
- \$50 million for community power resiliency
- \$750 million to support counties experiencing revenue loss due to the pandemic (additional \$250 million by October 25, 2020 is sufficient federal funds are made available).

## **CARES Act Allocations**

The State of California received \$9.5 billion, which was deposited in the Coronavirus Relief fund. Of that money, \$4.5 billion has been allocated to local school districts, \$1.3 billion has been allocated to counties, and \$500 million to cities to combat public health, homelessness, public safety, and other services related to the COVID-19 pandemic.

Of the \$500 million allocated to cities: \$225 million will go to cities with a population of 300,000 or greater that did not get a direct allocation from the federal government; \$275 million to cities with a population less than 300,000. Allocation of funds is based on the city's population and no city shall receive less than \$50,000. Funds will flow directly from the state (not through counties).

## **Trigger Cuts**

If California does not receive the anticipated \$14 billion in additional federal assistance by Sept. 1, the following "trigger solutions" may occur:

- \$2.7 billion more from the rainy day fund and Safety Net Reserve.
- \$1.3 billion one-time benefit from reinstatement of a longstanding deferral of state payments to CalPERS, including from state special funds.
- \$5.9 billion of increased deferrals to Proposition 98 (K-14 education) funding.
- \$600 million reduction to the county realignment backfill in this budget plan (leaving \$400 million of county backfill remaining).
- \$770 million of university reductions (\$370 million for University of California and \$400 million for California State University systems).
- \$100 million of reductions to the judicial branch budget.
- At least \$1.5 billion in state employee compensation reductions to be achieved, for represented employees, through the collective bargaining process. Potentially another \$1.6 billion from reinstatement of the one-day June payroll deferral that was instituted during the last recession (this change would be optional at the direction of the Director of the Department of Finance).

## **November Ballot Initiatives**

Twelve ballot measures have qualified for the November ballot in California. Of the twelve, four are relevant to City of San Marcos operational and policy concerns. They are reviewed below.

### **Proposition 15**

If passed Proposition 15 would increase funding for K-12 public schools, community colleges, and local

governments by requiring that commercial and industrial real property be taxed based on current market value. Exempts from this change: residential properties; agricultural properties; and owners of commercial and industrial properties with combined value of \$3 million or less. Increased education funding will supplement existing school funding guarantees. Exempts small businesses from personal property tax; for other businesses, exempts \$500,000 worth of personal property.

The State's Legislative Analyst and Director of Finance of fiscal impact on state and local governments estimates a net increase in annual property tax revenues of \$7.5 billion to \$12 billion in most years, depending on the strength of real estate markets. After backfilling state income tax losses related to the measure and paying for county administrative costs, the remaining \$6.5 billion to \$11.5 billion would be allocated to schools (40 percent) and other local governments (60 percent).

### **Proposition 18**

If passed Proposition 18 would allow a person who will be 18 years old at the time of the next general election to vote in any primary or special election that occurs before the next general election in which they would be eligible to vote in if they were 18 years old.

### **Proposition 19**

If passed Proposition 19 would allow eligible homeowners to transfer their tax assessments anywhere within the state and allow tax assessments to be transferred to a more expensive home with an upward adjustment; Increase the amount of times that persons over 55 years old with severe disabilities can transfer their tax assessments from one to three; require that inherited homes that are not used as principal residence, such as second homes or rentals, be reassessed at market value when transferred; and allocate additional revenue or net savings resulting from the ballot measure to wildfire agencies and counties.

### **Proposition 21**

If passed Proposition 21 would expand local governments' authority to enact rent control on resident property. Would amend state law, allowing rent control on residential properties over 15 years old. Would allow rent increases on rent-controlled properties of up to 15 percent over three years from previous tenants rent above any increase allowed by local ordinance. Would exempt individuals who own no more than two homes from new rent-control policies. Provides that rent-control policies may not violate landlords' right to a fair financial return on their property.

### **Update on Legislation**

Following several positive tests for COVID-19 among lawmakers and legislative staff members, the Senate and the Assembly are both tentatively set to return July 27<sup>th</sup>. At this time both houses will quickly begin to take up bills as they push towards the August 31 end of the legislative session. Both houses need to hear bills in the second house as well as make adjustments to the current year budget once the July 15th tax revenues

come in. While the August 31 deadline is one of the two constitutional deadlines the houses face this year, the Governor does have the potential option of calling an extraordinary session if needed for additional time.

Attachment A provides an update on the status of all bills at the state and federal levels that have been identified to have an approved city position, and includes 14 new bills with 43 bills total.

Attachment B is an opposition letter to SB 474 (Stern) Very High Fire Hazard Severity Zone: State Responsibility Area: Development Prohibition.

### **Environmental Review**

There is no environmental impact associated with this legislative review and recommendations thereon.

### **Fiscal Impact**

Unknown fiscal impacts are associated with the bills in Attachment A. A more thorough analysis of each bill's implementation requirements is needed to demonstrate total fiscal impact.

### **Attachment(s)**

Attachment A: Status and analysis of legislation with a proposed City position

Attachment B: Opposition Letter to SB 474

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