TO: Members, County of Santa Barbara Legislative Committee

FROM: Cliff Berg, Legislative Advocate
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RE: 2017 May Update

DATE: May 31, 2017

The Legislature has finished hearing bills in policy committees and the appropriations committees in the first House. Friday, June 2nd is the deadline for all of the legislation to move off the Floor of the house of origin. Since May 26th was the last day for fiscal committees to hear and report bills to the floor, all bills with a fiscal impact were put on the Suspense File and were considered right before the deadline for bills to be moved onto the Floor. The legislation that was moved out of the Suspense File goes to the Floor, while any bills that were held in Suspense will be held until next year, and are now two-year bills. Legislators will now be on the floor for a week of floor session starting May 30th-June 2nd. The Senate Floor must process a total of 268 bills, while the Assembly Floor has to process a total of 472 bills.

Meanwhile, the Governor released his May Revise on Thursday, May 11th. The Governor emphasized that the state's fiscal frugality remains his top priority as there remains uncertainty from the Federal Administration, and he is planning for tougher times in the future. He mentioned in his speech, "We have ongoing pressures from Washington and economic recovery that won't last forever."

The Department of Finance Director Michael Cohen and Diane Cummins, Special Advisor to the Governor came by CSAC and discussed the May Revise, they mentioned that although the revenue shortfall from January's earlier projections in income, sales and corporation tax went up by $2.5 billion, they are still down $3.3 billion overall from the earlier projections, and this does reflect the Governor's budget.

Director Cohen discussed that the Governor's Office and the Department of Finance worked to address the counties' major concerns in regards to the In-Home Supportive Service (IHSS) maintenance of effort (MOE) by working with CSAC to give counties time to ease into the costs by phasing in the costs to counties by year, and to bring down the overall cost shift from $623 million to $592.2 million with the promise of $400 million in state funding for 2017-18, an overall of $1.1 billion in state general fund contributions to mitigate the cost shift to counties over the next four years. The May Revision also contains a commitment going forward to review the costs of the program within the structure of 1991 Realignment and the impact of the inflation factor.

Meanwhile, the Legislature has now completed their budget subcommittee process where they have reviewed and proposed edits to the Governor's revised budget. The Assembly and Senate then held their own budget hearings where they voted to adopt their own version of the budget, now both versions of the budgets will go before the Budget Conference where the appointed Budget Conferees will vote on which version of the budget to send to the Governor. The Budget Bill must be passed by midnight of June 15th.

The County's Director of Planning and Development, Glenn Russell and Cliff Berg of Governmental Advocates testified at the Assembly Local Government Committee hearing in support of the County's sponsored legislation, AB 556 (Limon), which the committee voted in support of with a 6-1 vote. On May 30th, the Assembly passed AB 556 (Limon) off the Floor with a 46-8 vote.

The Assembly Local Government Committee's amendments would change the current $100 maximum fine for a single occurrence or $500 maximum after multiple violations of local zoning codes or permit conditions, to allow the County the option to increase these fines to $150 for a first time violation and up to $2,500 per violation after three or more violations. The bill allows counties to impose larger administrative fines for professionally organized special events that are held on private property and are commercial in nature, or result in threat to public health and safety. The bill is currently pending on the Assembly Floor.

CSAC had its annual legislative conference day on May 17-18, where they held workshops and meetings on items including cannabis, the passing of SB 1 (Beall/Frazier), as well as coastal and suburban issues.

During the CSAC conference, Dennis Bozanich and Cliff Berg met with our local delegation in order to discuss the County's priorities and get updates from the County's Legislators on their legislation. Senator Hannah-Beth Jackson requested the County's support for three of her bills, SB 62 (Jackson), SB 290 (Jackson) and specifically SB 188 (Jackson), which would prohibit the State Lands Commission from approving any new leases or any lease renewals, extensions, or modifications that would authorize any new or additional oil and gas development or infrastructure in state waters in order to protect California's coastal region from any additional offshore drilling orders by the Federal Administration.

Budget-May Revise

The Governor released his 2017-18 budget in January, which originally proposed $122 billion in state General Fund expenditures, and an overall $179 billion budget for the 2017-18 fiscal year.

Although some cuts remain from the January Budget, the May Revision offers funding on previously approved programs, some of which were threatened with cuts in the January budget, and debt payments:

- Partially mitigating impacts of the In-Home Supportive Services costs with appropriations to counties for the next four years
- School funding increase through the Local Control Formula by $1.4 billion
- Restoring the $500 million child care to package from the 2016 that was "frozen" in the January budget proposal

- Paying down $6 billion for unfunded pension liability to CalPERS, relying on the Proposition 2 Rainy Day Account.

This is in addition to the programs with on-going commitments approved in prior years:

- Repeal of Maximum Family Grant, which denied aid to children born to families while their parents were receiving aid
- Cost of living adjustments for the Supplemental Security Income/ State Supplementary Payment (SSI/SSP)
- Continuation of the Earned Income Tax Credit for the poorest of California's working families
- Expansion of healthcare to undocumented children and Californians covered under the Affordable Care Act
- Raising the state minimum wage, which will increase to $11 in 2018 and $15 for overtime hours

Discontinuing of the County IHSS MOE

The Administration brought down the $623 million in IHSS costs to the counties to $592.2 million. CSAC has been in negotiations with the Administration since the beginning of the year in order to try to bring the number down from $623 and give counties time to ease into the new county costs.

The May Revision includes an overall $1.1 billion in state general fund contributions over the next four years to mitigate the $592.2 million cost shift to counties. The Legislature is moving to preliminarily approve the Governor's May Revision proposal to appropriate $400 million in state general fund dollars for In-Home Supportive Services (IHSS) costs for the first year.

As previously stated, the Governor's original proposal in January would have shifted more than $600 million in IHSS costs back to counties. Now, the overall state cost shift is $592 million, but with the promise of $400 million in state funding for 2017-18 and other changes. CSAC are in support of the of the May Revise and will stand with the Governor's plan for at least the next two years, then will revisit the idea of getting more funding for the out years.

CalWorks Single Allocation Budget Cut

The Governor's proposed 2017-18 budget cuts a total of $248 million from the CalWORKs Single Allocation in 2017-18 fiscal year, which funds eligibility activities, employment and supportive services, and child care. If adopted, funding for these services will have dropped 21.2 percent over two years.

As stated in the letter from the County's Department of Social Services, the proposed cuts would result in negative effects in the County's welfare-to-work programs and would enact service reductions, such as elimination of subsidized employment programs and positions, which would result in many layoffs. The Assembly's version of the budget would restore $140 million for CalWorks, while the Senate's version restores $100 million.

Tribal Tax Issues

AB 653 (Ridley-Thomas) is legislation sponsored by the Chumash Tribe, which states that beginning the 2018-19 fiscal year, property owned in fee by a federally recognized Indian Tribe is exempt from taxation if the following conditions are met: The tribe has submitted an initial written request or trust application to the US Department of the Interior and the department has determined that the initial written request trust application is complete, and that the tribe has submitted both of the following to the assessor: documents establishing that the tribe is federally recognized and documents establishing that the initial written request or trust application is under consideration by the US Department of the Interior. The legislation passed the Assembly Revenue and Taxation Committee on May 8th and then the Assembly Appropriations Committee on May 17th. The bill is pending on the Assembly Floor. The deadline for it to be taken up is June 2nd.

We have discussed Santa Barbara County's potential concerns with the author's staff. They say they are planning amendments this week that would change the bill to provide the tax exemption from date of application to some kind of determination by the US Department of the Interior. They are working on language for this week. We will update you when we see it.

We also discussed the bill with CSAC, they have been focused on possible amendments. They see two issues that need to be addressed: 1) the assessor's ability to verify the application and 2) paying back the country if the application is denied.

Transportation

At the end of April, the Governor signed SB 1 (Beall/Frazier), which is now the Road Repair and Accountability Act of 2017. The funding package will provide $54 billion in new funding over the next decade, which is split evenly between the state and local funding.

The May Revision allows the state and local governments to implement the SB 1 plan in a cost-effective manner without delay, and reflects the first $2.8 billion in funding to:

- Focus on "fix it first" investments to repair neighborhood roads and state highways and bridges
- Make key investments in trade and commute corridors to support continued economic growth and implement a sustainable freight strategy
- Match locally generated funds for high-priority transportation projects
- Invest in passenger rail and public transit modernization and improvement

<u>The Transporation Funding Purposes and Allocations</u>

The package allocates $5 billion per year in funding at full implementation

- $1.5 billion for the SHOPP to maintain state highways and freeways

- $1.5 billion directly allocated to cities and counties equally for local streets and roads
- $750 million for transit operations and capital
- $685 million in General fund loan repayments by June 2020, split approximately evenly between state highways, local roads, and transit.
- $400 million for bridge repair and maintenance allocated to Caltrans
- $300 million for goods movement/freight projects
- $200 million in local partnership funding for the 24 self-help counties (CTC guidelines will be developed to allocate funding)
- $250 million for the new “Solutions for Congested Corridors” program (a competitive program to funding project nominated by regional transportation planning agencies or county transportation commissions)
- $100 million for the Active Transportation grant program for bike and pedestrian facilities (counties are eligible applicants for these grants)
- $25 million for Freeway Service Patrol
- $25 million for local planning grants for local and regional agencies to implement state goals related to regional transportation planning, including SB 375
- $7 million for UC and CSU Transportation Research
- Repayment of $706 million in outstanding General Fund Transportation loans from prior to Proposition 22:
- $550 million split evenly between the state and local governments
- $236 million for transit

<u>Revenue Sources Timeline for Phasing In</u>

- New gasoline fuel excise tax of 12 cents/gallon beginning **November 2017**
- End Board of Equalization Price-Based gas tax adjustment and reset rate to 17.3 cents in **July 2019**
- New diesel fuel excise tax of 20 cents/gallon beginning **November 2017**
- Diesel sales tax increase of 4% starting **November 2017**
- Transportation Improvement Fee: $25-175 per vehicle starting in **spring 2018**:
    - $25/year for cars valued less than $5,000 (46% of all cars)
    - $50/year for cars valued between $5,000 and $25,000 (41% of all cars)
    - $100/year for cars valued between $25,000 and $35,000 (7% of all cars)
    - $150/year for cars valued between $35,000 and $60,000 (5% of all cars)
    - $175/year for cars valued over $60,000 (1% of all cars)
- Zero emission vehicle (ZEV) fee of $100/year, starting in **2020**

<u>Local Road Maintenance and Rehabilitation Funding</u>

- Road Maintenance and Rehabilitation Account Funding will be allocated to state highways and local road projects by formula.
- $3 billion/year will be split evenly between the state and local governments, with cities and counties evenly sharing the local funding.
- Eligible projects for local Road Maintenance and Rehabilitation funding include, but are not limited to, the following:
- Road maintenance and rehabilitation
- Safety projects

- Railroad grade separations
- Complete street components, including active transportation purposes, pedestrian and bicycle safety projects, transit facilities, and drainage and stormwater capture projects in conjunction with any other allowable project
- Traffic control devices
- Funds may also be used to satisfy a match requirement in order to obtain state or federal funds for allowable project.
- Cities and counties with average pavement condition index scores exceeding 80 could use funding for transportation priorities other than those listed above.

Cannabis

The passage of Prop 64 allowed the recreational use of marijuana in California which created a number of cannabis bills, trailer bill language and regulations by the Bureau of Marijuana Control and CalCannabis, which will shape cannabis cultivation, retail sale, manufacturing, and distribution in California.

In addition to Prop 64 which was approved in 2016, the Governor signed into law the Medical Cannabis and Regulatory Safety Act (MCRSA) in 2015. These two laws contain several differences, therefore the Legislature and the cannabis regulatory agencies are working on changing several inconsistencies between Prop 64 and MSCRA.

On April 28th, the Department of Food and Agriculture and CalCannabis have finalized their proposed draft regulations for implementing the Medical Cannabis Regulation and Safety Act (MCRSA). They are currently holding a set of public regulation hearings in order to receive comments from the public in regards to the Bureau's draft regulations.

Highlights of the major issues addressed in the proposed regulations include:

- **Local Control/Authorization of licenses (Bureau).** For an applicant to be in good standing, they must provide the name of the local jurisdiction that issued the license, permit or other authorization, name and contract information for the person authorized by the local jurisdiction to sign on its behalf, signature of person authorized to sign on behalf of the local jurisdiction and a statement that the named party is in good standing.
- **General Provisions (All):** Definition of premises, security requirements (including personnel and 24 hour video surveillance) and definition of ownership.
- **Delivery (Bureau).** All deliveries of medical cannabis must be performed by a delivery employee of a licensed dispensary.
- **Cultivation Licenses (CDFA).** Requires cultivation plans of all applicants, new license type for those not growing but drying and curing plants, and environmental protections.
- **Dispensary Licenses (Bureau).** Requires purchases to be in exit packaging, limitations on hours of operation, daily limits on sales to patients, no free samples allowed.
- **Distributor Licenses (Bureau).** Requires distributors to conduct testing of products, outlines quality assurance requirements and requirements for destruction of the product.

- **Manufacturing Licenses (DPH).** Adding two new license types for infused products and businesses that only do packaging and labeling.
- **Product Limitations/Labeling and Packaging (DPH).** No products with infusion of alcohol, nicotine and caffeine; list of all ingredients in the labeling, THC levels for edibles and other products.

In April 2017, the Governor released trailer bill legislation that is currently being amended. If the budget trailer bill language passes, the Bureau will have to withdraw proposed regulations and propose a set of new regulations that would be consistent with the changes in the law.

The CSAC Cannabis Working Group will meet again via conference call on June 9th in order to discuss any legislative and budget updates, and a preview of upcoming events.

Cannabis Related Legislation

AB 64 (Bonta) contains a variety of provisions. It adds clarity about for-profit and non-profit types of businesses operating under the Medical Cannabis Regulation and Safety Act (MCRSA), and makes changes to storefront access requirements and restrictions on advertising. AB 64 also makes changes to trademark laws and certain marks related to cannabis that are lawful under state law, and advances a $3 million loan from the state's general fund to the California Highway Patrol for adopting protocols to determine driver impairment.

Licensing and Testing

AB 171 (Lackey) requires reporting on conditional licenses issued by the state.
AB 238 (Steinorth) relates to collective bargaining agreements and employees of licensed distributors.
AB 1527 (Cooley) would prohibit a former employee of a state or local licensing authority from being employed by a person or entity licensed under AUMA or MCRSA for at least one year.
SB 311 (Pan) relates to testing, and would authorize a licensee to perform testing of cannabis or cannabis products obtained from another licensee for the purpose of quality assurance.

Packaging and Advertising

AB 175 (Chau) would require manufacturers of edible cannabis products to submit packaging and labeling to the state for review of compliance with requirements of Prop 64, including child resistant packaging and labels that do not appeal to children.
AB 350 (Salas) specifies that cannabis products are deemed to appeal to children or easily confused with commercial candy if the product is in the shape of a person, animal, insect, fruit, or any other shape associated with candy.
SB 663 (Nielsen) specifies that a package or label of cannabis or cannabis products is deemed to be attractive to children if the package or label has specific characteristics, including resembling any candy, snack food, baked good, or beverage commercially sold without marijuana.
AB 420 (Wood) requires advertisements for medical cannabis to identify the responsible licensee.

State Requirements

AB 389 (Salas) would require the state to post a consumer guide on the regulation of medical and recreational cannabis online.
AB 1002 (Cooley) would rename the existing California Marijuana Research Program as the Center for Cannabis Research and would expand the purview of the program, including cultivation for research purposes and examining testing methods for detecting harmful contaminants in marijuana, including mold and bacteria.
AB 1135 (Wood) relates to public stakeholder input on disbursements to the Department of Health Care Services from the California Marijuana Tax Fund.
AB 1627 (Cooley) transfers the regulation of testing laboratories under AUMA from the State Department of Public Health to the Bureau of Marijuana Control.

Finance and Tax Issues

AB 963 (Gipson) addresses various aspects of taxation related to cannabis. It would require distributors to provide retailers with evidence of prepayment tax amounts collected, and then allow the retailers to credit the prepayments against the amounts due for the same period. AB 963 would authorize a system for prepayment of the excise tax that utilizes stamps or other markings. It also makes changes to taxable sales of medical cannabis products to persons with identification cards, including requiring county health departments to issue identification cards with the capability of storing data, and would limit the sales and use tax exemption for medical purchasers to only sales made with these types of cards. AB 963 would adjust the suspension, revocation, or denial of state permits in some cases related to taxation. Finally, the bill would extend the pilot program for combating criminal tax evasion until January 1, 2020 – with a Cannabis Criminal Enforcement Team to work on these issues specifically.
AB 844 (Burke) would change requirements for grantees applying for funding through the California Marijuana Tax Fund.
AB 1410 (Wood) relates to taxation and would require licensed distributors to collect cultivation taxes at the time of completion of quality assurance, inspection, and testing. It would require the licensed distributor to file the tax return, instead of the licensed cultivator, and all licensed distributors would need to obtain a separate permit for that work.

Public Safety

SB 698 (Hill) sets standards for driving under the influence, and would make the first violation punishable as an infraction, requiring successful completion of a three-month program and installation of an ignition interlock device for six months.
AB 903 (Cunningham) would amend AUMA by requiring the Highway Patrol to use funding from the California Marijuana Tax Fund to study the viability of standards for marijuana impairment.
AB 729 (Gray) would require license suspension for certain types of violations. It would also require licensees to post signs visible from public entrances to indicate "No Person Under 21 Allowed," among other security measures; AB 729 also prohibits the sale or distribution of cannabis or cannabis products in a vending machine. The bill would authorize licensees and employees to refuse to sell cannabis to a person unable to produce adequate identification, and would authorize peace officers or local and state licensing authorities the ability to enter and

conduct inspections. AB 729 also contains zoning restrictions, and would prohibit licensees from being located within a 600-foot radius of a playground, hospital, or church, unless a local authority or licensing authority specifies a different radius.

Interactions with the Federal Government

AB 845 (Wood) would, if federal law authorizes the prescription of a controlled substance containing cannabidiol, a physician to prescribe that substance in accordance with federal law. AB 1578 (Jones-Sawyer) would prohibit a state or local agency from taking certain actions to assist a federal agency investigate, detain, detect, report or arrest a person for cannabis activity that is authorized by the state of California, unless ordered by a judge.

Bills of Interest to the County

AB 334 (Cooper) Federal VAWA legislation passed in 2011 mandated the provision of free sexual assault forensic medical exams for patient/victims who do not want to cooperate with law enforcement agencies. The original California statute passed in 1977 mandating that local law enforcement agencies pay for sexual assault exams was amended after 35 years to comply with VAWA. The amended statute specified that law enforcement agencies could be reimbursed $300 by Cal OES out of their State VAWA appropriation for exams involving the non-cooperative patient/victim. The legislation has passed the Assembly Public Safety Committee 7-0 and the Assembly Judiciary Committee 11-0. The bill passed the Assembly Floor and is going to the Senate. The County is in support of the bill.

AB 556 (Limon) The bill would allow Counties to impose larger administrative fines for one-time violations of the County's ordinances specifically where permits are available and when knowledgeable businesses chose to ignore the required permit. The bill will focus on one-time events that purposely don't acquire a permit due to the fee of the permit costing less than the violation fine. The County is sponsoring the bill. The bill passed the Assembly Local Government Committee, and passed the Assembly Floor 46-8, and is going to the Senate.

AB 653 (Ridley-Thomas) legislation sponsored by the Chumash Tribe, which states that beginning the 2018-19 fiscal year, property owned in fee by a federally recognized Indian Tribe is exempt from taxation if the following conditions are met: The tribe has submitted an initial written request or trust application to the US Department of the Interior and the department has determined that the initial written request trust application is complete, and that the tribe has submitted both of the following to the assessor: documents establishing that the tribe is federally recognized and documents establishing that the initial written request or trust application is under consideration by the US Department of the Interior. The legislation passed the Assembly Revenue and Taxation committee on May 8th and then the Assembly Appropriations Committee on May 17th. The bill is pending on the Assembly Floor. The County does not have a position.

AB 722 (Limon) The bill would allow a member of the Santa Barbara County Board of Supervisors or by any public officer of the County of Santa Barbara or his or her deputy to serve on the board of directors of the Isla Vista district. The bill passed the Assembly Floor and is going to the Senate. The County's position is still pending.

AB 1472 (Limon) The bill details in statute what the California State Lands Commission (SLC) may take into consideration when reviewing an application to assign, transfer or sublet a lease or permit of state lands for oil and gas production. Assemblymember Limon has asked the County for support of the bill, and the County is currently looking at amendments. The bill passed the Assembly Floor, and has been referred to the Senate Natural Resources Committee.

SB 1 (Beall/Frazier) The merged legislation proposes an additional 5.2 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. The bill was signed by the Governor on April 28th.

SB 44 (Jackson) The legislation requires that for the fiscal year (FY) 2018-19, out of those funds deposited into the General Fund by the commission from tideland oil revenues that the sum of $2 million be transferred to the fund and be available, upon appropriation, for the purpose of implementing the coastal hazard and legacy oil and gas well removal and remediation program. The legislation has passed the Senate Natural Resources Committee 8-0 and the Senate Environmental Quality Committee 6-0. The legislation is pending on the Senate Floor. The County is supporting this legislation.

SB 588 (Hertzberg) This bill substantially revises the existing state rigs-to-reefs program that allows for the partial removal of oil and gas platforms in state or federal waters if the remaining portion is converted into an artificial reef and certain conditions are met. The bill is currently on the Senate Floor. The County opposes the bill.

SB 649 (Hueso) This bill establishes a statewide framework for streamlining the permit siting process of small cell wireless facilities that meet specified requirements. Specifically, this bill requires an administrative permit in lieu of a discretionary permit, limits fees to between $100 and $850 for small cell installations in the utility right-of-way, ensures access to most vertical infrastructure in the utility right-of-way and also within a commercial or industrial zone. This bill also requires permits for wireless telecommunications facilities would be automatically renewed for equivalent durations. The bill is on the Senate Floor. The County is opposed to the bill.

Conclusion

The legislative deadline for fiscal committees to hear and report bills to the Floor that were introduced in their house of origin was on May 26th, and all of the current legislation for 2017 is now on the Floor.

The budget conference committee will be meeting to adopt the budget by the June 15th deadline. The Legislature will then send it to the Governor and he will then have the opportunity to amend it.

June 2nd will be the last day for each house to pass bills that were introduced in their house. The Legislature will then prepare to hear bills in the other house's policy committees before the July 21st deadline for policy committees to meet and report bills, concurrent to when the Legislature goes on their Summer Recess.

We will continue to work with staff on the many bill and budget items that are moving and keep the committee and Board updated. As always, should you or your staff have any questions, please don't hesitate to let us know.