

To: Orange County Sanitation District
From: Townsend Public Affairs, Inc.
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Subject: Legislative and Public Affairs Agenda Report

State Political Update

The Legislature concluded the first year of this current two-year session on September 13. After going late into the night, the Legislature sent the Governor over 700 bills for his consideration. The Governor has until October 13 to sign or veto any legislation. All bills that failed to pass the Legislature are now two-year bills and will be eligible for consideration when the Legislature returns from interim recess.

The Legislature will reconvene on January 6 for the second year of the two-year session.

Due to Proposition 54 in 2016, all bills have to be in print for 72 hours prior to being considered on the Floor. Major topics of discussion for the final weeks of the legislative session included vaccinations, environmental permitting, and labor classifications.

Split Role Tax

On August 13, ballot organizers submitted initiative 17-0055, The California Schools and Local Communities Funding Act to be eligible for the November 3, 2020 general election. The ballot measure, commonly referred to as “Split Roll” or “Proposition 13 Reform,” requires certain commercial and industrial real property to be taxed based on fair-market value and dedicates portions of any increased revenue to education and local services. This change to assessment of property taxes is likely to result in an additional \$10.8 – \$12 billion in annual revenues across the state, of which 40 percent would go to education and 60 percent would go to local services.

Proposition 13 Background

The People’s Initiative to Limit Property Taxation, or Proposition 13, was passed in 1978 in response to increasing property values and the corresponding increases in property taxes. Proposition 13 ensures that valuations of property may not grow by more than 2 percent annually and that market value reassessment may only occur with a change of ownership or the completion of new construction. Proposition 13 also created a requirement that all state and local tax increases must be approved by a two-thirds vote of the voting public or the Legislature.

Proposition 13 was intended to prevent increasing property values and taxes from making homeownership too costly for residents. However, the measure did not differentiate between residential properties and commercial properties. Residential properties change ownership, and are therefore reassessed, every 10 years on average. Larger commercial properties in the State rarely change ownership and are therefore not reassessed on a regular basis. The unintended result has been that the proportion of property tax revenues paid by residents and commercial owners have shifted over the last 40 years.

Commercial property taxes accounted for roughly 50 percent of property tax revenue prior to Proposition 13. Today, that number is closer to 28 percent, and a variety of independent studies have shown that this shift represents roughly \$11 billion per year over the last decade that would have otherwise been paid in property taxes by commercial entities.

In an effort to address this shifting dynamic, proponents of the split roll reform have proposed returning certain commercial properties to the previous assessment schedule—every three years—while allowing residential property owners to still benefit from the property tax protections put forth under Proposition 13.

Support and Opposition

Although California is more than a year away from the 2020 General Election, campaigns are already rolling out in support and opposition to the split roll reform.

Proponents of the measure argue that the corporations have been abusing the intent of Proposition 13 to avoid paying their fair-share and note that the \$11 billion in annual revenues would have gone to supporting special districts, schools, county and city services, and other local needs. They also state that reassessment of property taxes will level the playing field for small business that are adversely impacted by newer property rates and shift land-use policy to make building affordable housing more appealing.

Opponents of the measure argue that taxes in California are already too high and that creating a split property tax policy will create a more hostile business climate throughout the state. They also note that dramatic increases for locally owned business could cause some companies to go out of business and could drive larger entities to other markets, resulting in increased unemployment and lower overall revenues for the State.

As of the July 31 filing deadline, seven independent expenditure committees have filed with the Secretary of State in support of the initiative. These committees reported having \$2,278,050 cash on hand. One independent expenditure committee has filed in opposition to the measure, with a total of \$182,686 cash on hand.

Next Steps

Proponents of the ballot initiative have indicated that they intend to refile the initiative to include the following changes:

- Expanded small business protections
- Stronger education financing language to ensure every school receives funding equitably
- Stronger zoning language to ensure large corporations cannot avoid reassessment

TPA will continue to monitor this issue, provide timely updates, and determine the impact of this ballot initiative to the Sanitation District.

Cap and Trade Auction

On August 27, the California Air Resources Board (CARB) conducted their third Cap and Trade auction of 2019. The Cap and Trade program is a greenhouse gas emission reduction strategy that places a statewide cap on emissions and auctions off emission allowances on a quarterly basis. Major carbon emitters must bid on allowances in order to report their total emissions to the state each year. Once again, all available emission credits were sold, and the state expects to receive **over \$730 million** from the August 2019 auction.

Revenues generated from the Cap and Trade program currently fund various transportation projects, affordable housing, and sustainable community programs. 40 percent of the revenue is available through the discretion of the Legislature for future appropriations for projects that will reduce greenhouse gas emissions.

The next Cap and Trade auction will take place in November 2019.

CalRecycle Organics Grant Program

The annual Cap and Trade expenditure plan routinely allocates funding to CalRecycle for waste diversion programs. CalRecycle administers several programs with this allocation including the Organics Grant Program, which specializes in funding projects that have a measurable greenhouse gas reduction benefit from the reduction and recycling of organic waste.

CalRecycle has released its Notice of Funding Availability (NOFA) for the FY 18-19 and FY 19-20 Organics Grant Program. Projects that construct, renovate, or expand facilities to increase in-state infrastructure for the composting or digestion of organics or the pre-processing of organics will be eligible for up to \$3 million and must result in an increase of tons of green or food materials diverted from landfills.

Project proposals are due November 7 with awards anticipated in March 2020.

Additional Priority Legislation

AB 1184 (Gloria) – Public records: writing transmitted by electronic mail: retention.

Would, unless a longer retention period is required by statute or regulation, require a public agency for purposes of the California Public Records Act to retain and preserve for at least 2 years every writing containing information relating to the conduct of the public's business prepared, owned, or used by any public agency that is transmitted by electronic mail. **AB 1184 was passed by the Legislature and is currently on the Governor's desk.**

OCSD Legislative Plan: Special Districts - Oppose further state regulations that adversely impact special district financing, operations, and administration.

SB 1 (Atkins) – California Environmental, Public Health, and Workers Defense Act of 2019

SB 1 seeks to freeze federal Clean Air Act, Clean Water Act, Safe Drinking Water Act, Endangered Species Act, Fair Labor Standards Act, Occupational Safety and Health Act and Coal

Mine Health and Safety Act requirements to those in place as of January 19, 2017. SB 1 refers to federal requirements existing as of this date, as “baseline federal standards.” SB 1 is intended to “ensure continued protections for the environment, natural resources, and public health and safety” in California, even if the noted federal laws are “undermined, amended or repealed” by making the baseline environmental standards the new floor for environmental and worker protections in California. **SB 1 was passed by the Legislature and is currently on the Governor’s desk. Soon after SB 1 was passed, the Governor released a statement saying that he intends to veto SB 1 due to concerns echoed by the water industry.**

OCSD Legislative Plan: Public Health - Protection of public health is OCSD’s core mission. OCSD will work cooperatively with county and state health officers to assure local health protection.

SB 210 (Leyva) – Heavy-Duty Vehicle Inspection and Maintenance Program

SB 210 directs the Air Resources Board (ARB) to work in coordination with multiple state agencies in order to develop and implement a Heavy-Duty Inspection and Maintenance Program for non-gasoline, heavy-duty, on-road trucks. Specifically, SB 210 would develop a pilot program to measure and enforce new regulations on heavy duty on-road trucks and then require ARB to adopt a full program within two years after the pilot program ends. **SB 210 was passed by the Legislature and is currently on the Governor’s desk.**

OCSD Legislative Plan: Air Quality - Support measures that maintain and enhance local decision-making authority, where appropriate, in the development and implementation of air quality attainment strategies

SB 667 (Hueso) – Greenhouse gases: recycling infrastructure and facilities.

SB 667 would require CalRecycle in coordination with the Treasurer to develop financial incentive mechanisms, including, but not limited to, loans and incentive payments, to fund organic waste diversion and recycling infrastructure. This bill also requires CalRecycle to develop and amend a 5-year investment strategy to drive innovation and support technological development and infrastructure. **SB 667 failed to pass the Assembly Appropriations Committee and is now a two-year bill.**

OCSD Legislative Plan: Biosolids and Biogas - Support the promotion and funding of local pilot programs, studies, and research for the beneficial use of biosolids.