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STATE BUDGET:
Legislature Sends $199.6 Billion Budget to Governor

Both houses of the Legislature approved a $199.6 billion budget bill for the 2018-19 fiscal year during June 14 floor sessions, one day ahead of the constitutional deadline for sending the budget to the governor.

The budget (SB 840, Mitchell) includes general fund spending of $138.6 billion – an $11.6 billion increase over last year’s enacted budget. The plan does not include any major broad-based tax or fee increases, or major changes to the state tax agency structure. A tax on water users was floated by the governor earlier this year, but was not part of the final budget.

Key tax- and fee-related provisions of the budget:

- Expansion of the earned income tax credit, extension of the new employee tax credit, and extension of the California Competes Tax Credit.
- Supplemental funding for county assessors under terms and conditions similar to the existing State-County Assessors’ Partnership Agreement Program.
- An official shift of some property tax-related programs back to the State Board of Equalization from the California Department of Tax and Fee Administration – a shift that already has been in the works.
- Cap-and-trade revenue to fund projects including high-speed rail.

The main budget bill cleared the Assembly with a 57-23 vote, and passed the Senate with a 27-10 vote – both far in excess of the simple majority needed. In addition, both houses approved 13 budget trailer bills that detail how money will be spent (see table below). Some of the trailer bills, however, include policy changes that have only tangential relation to the budget – a practice that was especially prevalent last year, when a budget trailer bill was used as the vehicle to reorganize the tax agencies and create a new agency for hearing tax appeals.

Governor Jerry Brown, who negotiated the spending plan with Democratic legislative leaders, is expected to sign the bill before the July 1 start of the new fiscal year.

Assembly Member Phil Ting, chair of the Assembly Budget Committee, lauded the spending plan for its increased investments in education and social programs.

Ting said the budget reflects California’s values and priorities. During a floor speech, Ting noted that the plan increases education spending to $11,600 per pupil, provides cities with $500 million to combat homelessness, expands the earned income tax credit to adults 65 and older and 18-year-olds, puts money aside for deferred maintenance, and provides a path toward enacting universal healthcare.

Senator Nancy Skinner lauded the budget’s inclusion of $500 million to address homelessness, and said that while she had hoped for much more, this is a good start.

Republicans expressed concern about the increased spending, and about changes they said could thwart tax relief.
Republican Assembly Member Jay Obernolte, vice chair of the Assembly Budget Committee, said the 9.1 percent increase in general fund spending over last year is more than three times the rate of inflation in California, but the budget still does not address many of California’s critical issues.

Assembly Member Melissa Melendez said the budget was “rigged so taxpayers never get a refund,” alluding to a budget trailer bill that will create two new reserve accounts (AB 1830, Assembly Budget Committee).

Republicans argued that the existing rainy day fund and Special Fund for Economic Uncertainties (SFEU) are sufficient, and questioned Democrats’ motives for creating new accounts rather than just putting more money in the existing accounts. Senator Jeff Stone said the move seems to be an attempt to get around the state spending limit that triggers a reduction in the state sales/use tax rate when the fund for economic uncertainties reaches a specified percentage of the overall budget.

Under current law, the rainy day fund is capped at 10 percent of general fund expenditures, and any additional funds must be spent on transportation projects. The SFEU is capped at 4 percent of general fund expenditures, and once that cap is reached, the state must reduce the sales tax rate by 0.25 percent. The two new accounts created by AB 1830 will allow the Legislature to set aside more money without diverting excess to transportation projects or reducing the state sales tax rate.

Assembly Member Dante Acosta called the legislation “a run-around state law,” and several other Republicans said the bill is a smoke-and-mirrors maneuver to lock in higher spending.

“You want a blank check for the future? That’s what this is,” Assembly Member Jim Patterson said.

During budget subcommittee hearings, representatives of the Legislative Analyst’s Office said the sales/use tax rate cut has been triggered once, many years ago, and estimated that it would not be triggered in this year’s budget even if the existing reserve structure were maintained. The analyst did not predict how the funds could impact future budgets.

Democrats took exception to the Republican critiques. In a fiery speech that bordered on yelling, Assembly Member Ian Calderon said, “This is what we’re doing to prepare ourselves for the future because a recession is an inevitability.”

Ting chastised Republicans for frequently saying the state should save money, but opposing the Democrats’ method for doing so.

A trailer bill authorizing the construction of a new Capitol annex also drew robust debate. AB 1826 (Assembly Budget Committee) authorizes the state to issue more than $755.5 million in lease-revenue bonds for the construction of the annex and the development of a temporary legislative office building a few blocks away that would be converted to state office space once the annex is completed. Additionally, the legislation exempts the Legislature from the competitive bidding process – a process that all local governments must comply with when undertaking construction projects – and from the California Environmental Quality Act.
Assembly Republicans lamented the cost of a new building when millions of Californians can’t afford the price of homes, and said it is hypocritical for the Legislature to exempt itself from laws that local governments must follow and from CEQA, which often is used as a tool to combat development.

In the Senate, Democratic Senator Steve Glazer also spoke out against the AB 1826 because of the special treatment given to the Legislature. He said the bill provides that if there is an objection to the project, the courts must resolve it within a certain timeframe – an expedited process that isn’t allowed for home construction and other private-sector construction.

**Spending Increases**

While the budget currently is projected to spend $199.6 billion, Los Angeles Times writer George Skelton noted in a June 14 column that the spending is likely to increase as the year goes on.

“(T)he total will grow virtually every day,” Skelton wrote. “Bet on it. When the current budget was signed last year, it was pegged at $183 billion. In only six months, it grew by more than $5 billion. That’s government.”

Indeed, one of the bills approved this week was a measure to add $890 million in spending to the current fiscal year’s budget (SB 841, Senate Budget and Fiscal Review Committee).

**The Budget Process**

Democratic Senator Holly Mitchell described the budget bill as the “culmination of months of consideration,” and said budget committees and subcommittees held more than 70 public hearings “to craft the document that is before you,” but Republicans strongly disagreed with that characterization.

Republican Senator Jim Nielsen, who served on the budget conference committee, said some of the items that were not presented to that committee showed up in the legislation described as the conference committee report. Nielsen also complained that the conference committee’s votes were “all jammed into the last day, in a vote on the whole budget,” and “in no particular case did we have any written language,” but rather had to rely on analyses from staff.

Senator John Moorlach, who also served on the conference committee, said the panel “has become a nothing-burger,” and noted that even before it finished meeting, the governor and legislative leaders issued a press release “saying that everything has been resolved.” He said the conference committee, which ostensibly is supposed to iron out differences between legislation passed by each house, has become a “compiler of data, serving as scribes, not a decision-making body.”

Republican Assembly Member Jay Obernolte complained during a committee hearing that one of the budget trailer bills (SB 854) included several policy items that did not relate to the budget, and that already were the subjects of separate, non-budget bill. “I prefer that the Legislature debate policy-related bills in the policy committee, and not through the budget,” he said.

Democratic Senator Connie Leyva criticized the Republicans for focusing on the process, and said the process doesn’t matter as long as the result is a good budget. The budget approved by the Legislature “is pretty darned cool,” she said.
**Trailer Bills**

The table below lists the budget trailer bills, including many that have not yet come up for a vote (the June 15 deadline applies to the main budget bill, but not to trailer bills). While identical bills were introduced in each house, and are listed below, the shaded bills are those that were approved.

<table>
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<td>Emergency Phone Surcharge Act</td>
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In other budget news:
**Revenue Falling Short of Governor’s May Projection.** State Controller Betty Yee reported June 8 that California brought in less tax revenue than expected during the month of May, as total revenue of $8.25 billion was below the governor’s May projection by $784.2 million (8.7 percent).

With one month left in the 2017-18 fiscal year that began in July, total revenue of $115.38 billion is $784.2 million less than estimated in the May budget revision, but $4.52 billion higher than expected when the 2017-18 budget was enacted last year. Total fiscal year-to-date revenue is $10.10 billion higher than for the same period in the 2016-17 fiscal year, Yee noted.

For May, personal income tax receipts of $4.82 billion were $497.4 million (11.5 percent) higher than estimated in the governor’s May budget proposal. For the fiscal year, PIT receipts are $3.28 billion (4.2 percent) higher than projected in the 2017-18 budget.

Corporation tax receipts of $570.6 million in May were $79.2 million (12.2 percent) less than projected by the governor. For the fiscal year, total corporation tax receipts are 15.9 percent above assumptions in the 2017-18 budget.

Sales tax receipts of $2.43 billion for May were $1.11 billion (31.4 percent) lower than anticipated in the governor’s May budget proposal. For the fiscal year, sales tax receipts are 1.7 percent lower than expected in the 2017-18 budget.

**LEGISLATIVE UPDATE:**

**Recalled Senator Still in Office, but Gives Fiery Goodbye Speech**

Democratic Senator Josh Newman was recalled by voters June 5, with 58.8 percent of the voters supporting the recall, but he continues collecting a paycheck and serving as a voting member of the house.

Senate President Pro Tem Toni Atkins has not announced when Ling Ling Chang, the Republican senator elected to replace Newman, will be sworn in, but a spokesman for the Senate leader said the transition is likely to occur before July 6 – the beginning of the Legislature’s one-month summer break, and also the date by which county elections officials must report final results to the secretary of state, who must certify the results by July 13.

The Senate’s delay in implementing the election results is in contrast to the Assembly, which immediately swore in the two winners of June 5 special elections. (One of the statewide ballot measures approved in the same election, Proposition 72, provides that ballot measures do not take effect until election results are certified, but that measure does not apply to legislative elections.)

During the Senate’s June 11 session, Newman gave a seven-minute speech in which he angrily criticized Republican senators for not opposing the recall. He called the election “an abuse of the recall process,” and said the campaign against him was supported by “an army of trolls” who threatened his family and hassled his staff. Later in the week, he did not attend committee hearings or floor sessions, but his name was included when the Senate clerk called the roll for various votes.
The allegation about abusing the process has been made by both sides of the recall campaign. Sponsors of the recall criticized a provision in last year’s state budget that changed the rules for recalls – delaying the election until a date when Democratic turnout was expected to be more favorable – as the effort against Newman was pending.

The main issue in the recall was Newman’s vote in favor of last year’s transportation tax measure (SB 1, Beall), which cleared the Senate with the bare minimum 27 votes. Radio talk show host Carl DeMaio and other recall supporters said the vote illustrates that Newman is out of sync with voters in the Senate district, while Newman and his supporters argued that the taxes were needed to address crumbling infrastructure that otherwise would not be repaired. The homepage of Newman’s Senate website included a prominent link titled, “Rebuilding California: SB 1,” with a prompt to “view projects in your district.”

In other legislative news:

**Singing Protestors Disrupt Senate Session.** The June 11 Senate floor session was interrupted by singing protestors, prompting a recess in the proceedings while Senate staff escorted the protestors out of the visitors’ balcony. The protestors, who also have interrupted a budget subcommittee hearing and have blocked access to Governor Jerry Brown’s office, are members of the California Poor People’s Campaign, a group that advocates more government spending on programs to address poverty and homelessness. A leader of the group said its members don’t have money to pay for advocacy, but the singing lets them “raise our voices” to get their point across. Some of the protestors have been arrested. The national group has been conducting similar protests at several other state capitol buildings.

**ASSEMBLY REVENUE AND TAXATION COMMITTEE:**
**Property Tax Delinquency Notification Bill Advances**

The Assembly Revenue and Taxation Committee voted 9-0 on June 11 to approve SB 1506 (Senate Governance and Finance Committee), amending five sections of property tax law that require a county tax collector to send a notice to a tax-defaulted property owner to explicitly provide that the required notice constitutes a “notice of tax deficiency” under federal bankruptcy law.

There was no debate or discussion of the bill, which is sponsored by the California Association of County Treasurer-Tax Collectors. In a letter to the committee, the association stated that in recent years, tax collectors have been challenged for providing continued notification to property owners after they enter bankruptcy. SB 1506 is intended to clarify that a notification of delinquent taxes does not violate the automatic stay that bans certain actions against debtors in bankruptcy.

“These notifications are critical to homeowners in bankruptcy because tax debt survives bankruptcy, and ultimately, if taxes are not paid, a homeowner could lose their home in a county tax sale even if they exit bankruptcy,” the sponsor stated.

The bill was one of two heard by the committee, in a meeting that lasted just six minutes. The other bill, also approved with a 9-0 vote, is SB 1363 (Moorlach), authorizing a tax return checkoff for the National Alliance on Mental Illness California Voluntary Tax Contribution Fund.
In related news:

**New Members Appointed to Tax Policy Committee.** Assembly Speaker Anthony Rendon announced this week that he has appointed Assembly Members Luz Rivas and Phil Ting to replace Assembly Members Rob Bonta and Kevin McCarty on the Assembly Revenue and Taxation Committee. All four lawmakers are Democrats. Rivas was elected last week in a special election to fill the vacancy left when Assembly Member Raul Bocanegra resigned. Ting, a former San Francisco assessor, previously has served as chair of the committee.

**SENATE GOVERNANCE AND FINANCE COMMITTEE:**
**Panel Approves Legislation Allowing Lower School Parcel Tax Rates on Unimproved Properties**

The Senate Governance and Finance Committee voted 7-0 on June 13 to approve AB 2954 (Bonta), allowing school districts to apply a lower parcel tax rate to unimproved property than to improved property.

Other local tax districts already have this authority, but school districts do not. Democratic Assembly Member Rob Bonta said his bill will ensure that school districts will be able to “continue providing educational opportunities.”

School district representatives said the bill “gives local school districts a tool” to shape their revenue-raising options.

The bill is supported by both the California Teachers Association and the Howard Jarvis Taxpayers Association.

The committee’s analysis quoted extensively from the California Tax Foundation’s 2014 report, “Piecing Together California’s Parcel Taxes,” and noted the report’s recommendations for standardizing tax bases and increasing uniformity.

In other action from the committee:

**Los Angeles Transportation Measure Advances.** The committee voted 7-0 to approve AB 1594 (Bloom), repealing the requirement that the Los Angeles County Metropolitan Transportation Authority, prior to awarding a contract for a public-private partnership for rapid transit and health rail infrastructure, adopt a finding with at least a two-thirds vote of the board that awarding the contract will achieve efficiencies in the integration of design, project work, and components.

**Committee OKs Cash Payments for Cannabis Taxes.** AB 1741 (Bonta), temporarily authorizing the California Department of Tax and Fee Administration to allow a person engaged in commercial cannabis activity to remit taxes via a method other than an electronic funds transfer, was approved with a 6-1 vote.

**Extension Tax Credit for Manufacturers Advances.** AB 1900 (Brough), extending the Capital Investment Incentive Program from 2019 to 2024, was approved with a 7-0 vote, without debate or
discussion. Under the program, counties and cities can pay a capital investment incentive amount for 15 years to a proponent of a qualified manufacturing facility making an initial investment that exceeds $150 million.

**Committee Approves Bill on Use of Electronic Records by Assessors.** The committee voted 5-1 to approve AB 2425 (Berman), requiring that property records requested by county assessors for purposes of valuation be transmitted to the assessor by mail or in an electronic format. The measure also requires county assessors, upon request by an assessee, to transmit information used to value the assessee's property, by mail or in electronic format and free of charge.

**Parcel Tax Transparency Measure Is Approved.** AB 2458 (Weber), requiring tax collectors to add specified information regarding parcel tax exemptions to their websites and property tax bills, and directing school districts to add similar information to their websites, was approved with a 7-0 vote.

**Panel Approves Clarification of Tax Deadlines for Victims of Disaster.** AB 3122 (Gallagher), clarifying deadlines for property tax payments when taxpayers apply for payment deferral due to a disaster, was approved with a 7-0 vote.

**OFFICE OF TAX APPEALS:**

**Agency Releases Information on Two New Administrative Law Judges**

The Office of Tax Appeals has unveiled biographical information for two administrative law judges who will be hearing tax appeals for the agency:

- Daniel Cho, a former State Board of Equalization attorney. Cho, who holds a law degree and a master’s of law in taxation from Loyola Law School, focused on environmental law at Dongell Lawrence Finney LLP, then joined the Appeals Division of the BOE, which subsequently became the Appeals Bureau of the California Department of Tax and Fee Administration.

- Nguyen Dang, also a former BOE and CDTFA attorney. Dang holds a law degree and a master’s of law in taxation from Chapman University School of Law. He served as a volunteer taxpayer representative at Chapman’s Low-Income Taxpayer Clinic and the BOE’s Taxpayer Appeals Assistance Program, representing taxpayers in a wide variety of state and federal tax cases. His experience includes serving for many years as an appeals conference holder for the BOE and CDTFA, issuing decisions on sales and use tax and special tax and fee cases. Prior to attending law school, Dang owned and operated a boutique loudspeaker testing and manufacturing business and online audio community.

The OTA’s website now includes biographical information for 16 ALJs, 15 of whom have worked as attorneys for the Franchise Tax Board, State Board of Equalization and/or the California Department of Tax and Fee Administration.
LOCAL TAXES:
Seattle Repeals Business Tax That Had Been Model for Some California Cities

As the Silicon Valley cities of Cupertino and Mountain View consider asking voters to approve employee “headcount” taxes on major employers, the Seattle tax that had served as a model for the California proposals has been repealed due to concerns about its impact on the economy.

The Seattle City Council voted 7-2 on June 12 to repeal the tax, which targeted large employers including Amazon and Starbucks. National Public Radio noted in a June 13 story that the vote “was a sharp reversal from just last month, when the council voted unanimously to pass the tax and the city’s mayor signed it into law.” (CalTax: In California, a tax cannot be imposed by a city unless it is approved by the voters.)

An effort to repeal Seattle’s tax via the ballot box was launched immediately, and Council Member Lisa Herbold said she voted to repeal the tax now because many residents oppose the tax, and “this is not a winnable battle at this time.”

COURTS:
Fresno Can Impose Water Fees on New Development, Trial Court Rules

A Fresno County Superior Court judge has ruled that Fresno can impose water fees for new housing developments, rejecting arguments made by the city’s largest developers.

In April 2017, the Fresno City Council approved “water capacity fees” to pay for improvements to the city’s water infrastructure and treatment facilities, and to accommodate increased water demands from new developments.

Currently, the “fee” is $4,246 per home, typically paid by the developer when a building permit is issued.

Granville Homes, Wathen Castanos Peterson Homes and Lennar Homes filed suit arguing that the charge violates the Mitigation Fee Act because the city failed to present any evidence that the “fees” would be of proportional benefit to new development.

In a May 30 ruling, Judge James M. Petrucelli opined that the developers failed to provide evidence that the “fees” exceeded reasonable costs. The judge stated that the burden of proof falls on the plaintiffs.

CALIFORNIA’S COMPETITIVENESS:
California’s Only Large-Scale Car Manufacturer Says State Regulation Creates New Disadvantage

Tesla, the only large-scale car manufacturer in California, is opposing a proposed state regulation that would ban its customers from being eligible for state electric vehicle rebates unless the company uses union workers at its Fremont facility. The regulation would create a new hurdle for California-based companies, Tesla noted in a letter opposing the regulation.
The regulation, pushed by the California Labor Federation, could take effect as early as next month.

Tesla’s letter said the “state is targeting” the company, and other car manufacturers avoid California because they view operating here as “a competitive disadvantage.”

Angie Wei, a lobbyist for the Labor Federation, wrote in support of the regulation: “The goals of a clean environment and a thriving middle class are inseparable for the Labor movement and we are committed to achieving both.”

Carl Guardino, president of the Silicon Valley Leadership Group, wrote that the proposed regulation “discourages future manufacturing investment in California by effectively holding companies that create manufacturing jobs in California to a different and higher standard.”

The regulation is the result of a provision placed in last year’s state budget by Democratic legislators.

Elon Musk, the founder of Tesla and Space X, noted that Tesla took over a plant in Fremont that was left vacant when another car manufacturer – whose employees were members of the United Automotive Workers union – left the state. He wrote on Twitter:

“I’ve never stopped a union vote nor removed a union. UAW abandoned this factory. Tesla arrived & gave people back their jobs. They haven’t forgotten UAW betrayed them. That’s why UAW can’t even get people to attend a free BBQ, let alone enough (signatures) for a vote.” (Source: The Sacramento Bee, June 11.)

In related news:

**Assembly Member Says if California Doesn’t Reduce Cost of Living, “I’m Outta Here.”** Republican Assembly Member Randy Voepel, who represents Assembly District 70 in Santee, said during the Assembly Revenue and Taxation’s June 11 hearing that if the state government doesn’t take steps to reduce the cost of living in California: “After this gig, ... I’m outta here!”

“Adios, amigo, I’ll be gone to Yuma or Las Vegas,” Voepel added.

He wouldn’t be the first lawmaker to leave. After representing Assembly District 71 in Orange County for three terms, Assembly Member Chuck DeVore moved to Texas, where he now serves as a vice president of the Texas Public Policy Foundation.

**NEW LEGISLATION:**

**Recently Introduced Measures of Interest**

**Proposition 13 40th Anniversary.** [SR 113](#) (Gaines) is a resolution commemorating Proposition 13’s 40th anniversary and reaffirming the Senate’s support of Proposition 13 and the benefit it provides to homeowners and the economy overall.
NEW WINE IN OLD BOTTLES:
Recently Amended Bills of Interest

Bill Relating to Legal Services for Deported Veterans Now Deals With Conservation Programs. AB 386 (Gonzalez Fletcher), previously requiring the State Department of Social Services to contract with qualified nonprofit legal services organizations to provide legal services for deported veterans, was gutted and amended June 11 to instead appropriate $20 million to the Department of Education for allocation to school districts and community colleges for a pilot program for energy efficiency and water conservation projects. Vote: Majority.

2017 Budget Augmentation. AB 1807 (Assembly Budget Committee) and SB 841 (Senate Budget and Fiscal Review Committee), budget trailer bills, were gutted and amended June 11 to make various budget augmentations relating to the 2017 budget act. Vote: Majority.

Education Finance Budget Trailer Bills. AB 1808 (Assembly Budget Committee) and SB 842 (Senate Budget and Fiscal Review Committee, budget trailer spot bills, were gutted and amended June 12 to become education omnibus bills. Vote: Majority.

Higher Education Budget Trailer Bills. AB 1809 (Assembly Budget Committee) and SB 843 (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 12 to become the higher education omnibus bills. Vote: Majority.

Public Health Omnibus Budget Trailer Bills. AB 1810 (Assembly Budget Committee) and SB 844 (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 12 to, among other things, impose an $87 application fee for lead certification and a supplemental license fee on health facilities located in Los Angeles County. Vote: Majority.

Human Services Omnibus Budget Trailer Bills. AB 1811 (Assembly Budget Committee) and SB 845 (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 12 to become the human services omnibus bills. Vote: Majority.

Public Safety Omnibus Budget Trailer Bills. AB 1812 (Assembly Budget Committee) and SB 846 (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 12 to become the public safety omnibus bills. Vote: Majority.

Courts Omnibus Budget Trailer Bills. AB 1813 (Assembly Budget Committee) and SB 847 (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 12 to, among other things, extend a supplemental fee and complex case fee until July 1, 2023, and a special notice filing fee to January 1, 2024. Vote: Majority.

Transportation Budget Trailer Bills. AB 1814 (Assembly Budget Committee) SB 848 (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 11 to, among other things, increase a Department of Motor Vehicles transaction fee by $1 for implementation of the private industry partners’ proportionate share of department-wide system improvements. Vote: Majority.
Housing Budget Trailer Bills. **AB 1816** (Assembly Budget Committee) **SB 850** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 11 to relate to housing and, among other things:

- Provide that the California Environmental Quality Act does not apply to an action taken by a state agency or local government to provide financial assistance to a development that was approved for streamlined approval for a development targeted to persons of very low, low, or moderate income.

- Allocate $5 million each from the Building Homes and Jobs Trust Fund to Orange and Merced counties, for emergency homeless shelters in Orange and a homeless navigation center in Merced.

- Establish the Homeless Emergency Aid program that will provide one-time block grant funds to local jurisdictions to address immediate homeless challenges totaling $500 million.

Vote: Majority.

State Government Omnibus Budget Trailer Bills. **AB 1817** (Assembly Budget Committee) and **SB 851** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 11 to, among other things, authorize the State Board of Equalization and California Department of Tax and Fee Administration to delegate, share, provide assistance for, or transfer between themselves administrative responsibilities for tax and fee programs within their respective duties pursuant to an agreement. Vote: Majority.

Correctional Peace Officer Union Negotiations Budget Trailer Bills. **AB 1818** (Assembly Budget Committee) and **SB 852** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 11 to approve a pay raise for prison guards. Vote: Majority.

Developmental Services Budget Trailer Bills. **AB 1819** (Assembly Budget Committee) and **SB 853** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 11 to deal with developmental services. Vote: Majority.

Public Resources Budget Trailer Bills. **AB 1820** (Assembly Budget Committee) and **SB 854** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 11 to, among other things, require the State Air Resources Board to adopt a schedule of fees to cover all or a portion of the board’s reasonable costs for the certification, audit and compliance of off-road or non-vehicular engines and equipment, aftermarket parts and emissions-control components sold in the state. Vote: Majority.

Taxation Budget Trailer Bills. **AB 1821** (Assembly Budget Committee) and **SB 855** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 13 to make the following taxation changes:

- Lower the eligibility age for the earned income tax credit to 18.
• Extend the sunset date of an existing personal and corporate income tax credit for hiring certain full-time employees within a designated census tract or an economic development area that has a poverty rate in the top 25 percent of all census tracts in an amount of 35 percent of wages until January 1, 2026.

• Exclude from gross income any earned income that is derived from sources within Indian country for taxable years beginning January 1, 2018.

• Extend the sunset date for the California Competes Tax Credit until January 1, 2030, and cap the credit at $180 million annually until fiscal year 2022-23.

• Require the Governor’s Office of Business and Economic Development (GO-Biz) to provide the Legislative Analyst’s Office a report on California Competes credits allocated, with a further requirement that the analyst notify the appropriate legislative policy committees by April 1, 2020.

• Extend indefinitely a reporting requirement for local jurisdictions that have entered into a reciprocal agreement with the Franchise Tax Board and impose a business license tax to report to the FTB certain specified information relating to the administration of the business tax or business license program.

Vote: Majority.

State Government Budget Trailer Bills. **AB 1824** (Assembly Budget Committee) and **SB 858** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 11 to, among other things, require the secretary of state to reimburse counties for the replacement of their voting systems. Vote: Majority.

Education Finance Budget Trailer Bills. **AB 1825** (Assembly Budget Committee) and **SB 859** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 11 to recertify the Proposition 98 minimum school funding guarantee. Vote: Majority.

State Capitol Annex Budget Trailer Bills. **AB 1826** (Assembly Budget Committee) and **SB 860** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 11 to authorize the State Public Works Board to issue lease-revenue bonds for the construction or renovation of the state Capitol annex building. Vote: Majority.

Homeless Housing Bond. **AB 1827** (Assembly Budget Committee) and **SB 861** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 11 to amend Proposition 63 (passed by voters in 2004 to impose a 1 percent tax on income exceeding $1 million, to fund mental health programs) to authorize the California Health Facilities Financing Authority to issue up to $2 billion in general-obligation bonds for construction of homeless housing, and to transfer $140 million annually from the Mental Health Services Fund to the Supportive Housing Program Subaccount. The bond would be placed before voters on the November 6, 2018, ballot. Vote: Two-Thirds (Urgency).
Another Budget Surplus Account. **AB 1830** (Assembly Budget Committee) and **SB 864** (Senate Budget and Fiscal Review Committee), budget trailer bills, were gutted and amended June 11 to require deposits to the Budget Stabilization Account for the 2018-19 fiscal year to be transferred from the general fund to the newly created Budget Deficit Savings Account. The state controller shall transfer a specified amount based upon projections to the Budget Stabilization Account and 50 percent of the remaining amount shall be transferred to the Safety Net Reserve Fund. Vote: Majority.

Infrastructure Budget Trailer Bills. **AB 1831** (Assembly Budget Committee) and **SB 865** (Senate Budget and Fiscal Review Committee), budget trailer bills, were gutted and amended June 11 to, among other things, divert constitutional excess reserves from being spent on infrastructure and instead appropriate those funds into an account related to housing and rail. Vote: Majority.

Employment Budget Trailer Bills. **AB 1832** (Assembly Budget Committee) and **SB 866** (Senate Budget and Fiscal Review Committee), budget trailer spot bills, were gutted and amended June 13 to, among other things, prohibit a public employer from deterring or discouraging public employees or job applicants from joining a labor union or authorizing a paycheck deduction for union dues. Vote: Majority.

Corrections Omnibus Budget Trailer Bills. **AB 1834** (Assembly Budget Committee) and **SB 868** (Senate Budget and Fiscal Review Committee), budget trailer bills, were gutted and amended June 11 to increase the maximum costs the Department of Corrections and Rehabilitation may spend on the design, construction or renovation of facilities that provide medical, dental and mental health treatment or housing to $1.08 billion. Vote: Majority.

911 Surcharge Budget Trailer Bills. **AB 1836** (Assembly Budget Committee) and **SB 870** (Senate Budget and Fiscal Review Committee), budget trailer bills, were gutted and amended June 11 to impose a monthly surcharge of 20 cents to 80 cents per access line in California, based upon the Office of Emergency Services’ estimate of rate needed to produce enough revenue to fund the 911 system’s costs. Additionally, the surcharge would be applied to the purchase of prepaid mobile phones and collected by the sellers. Vote: Two-Thirds (Tax Increase).

Film Tax Credit Budget Trailer Bills. **AB 1837** (Assembly Budget Committee) and **SB 871** (Senate Budget and Fiscal Review Committee), budget trailer bills, were gutted and amended June 12 and June 13 to extend the film tax credit until July 1, 2025. The credit would be capped at $330 million annually plus additional specified amounts. The bills offer a sales and use tax credit in lieu of the personal and corporate income tax credit. Additionally, the bills require the California Film Commission to post annually on its website the aggregated diversity information collected from applicants. Vote: Majority.

Authorizes Berkeley to Exceed Bradley-Burns Sales Tax Limit. **AB 2920** (Thurmond), authorizing the city of Berkeley to impose a transactions and use tax at a maximum rate of 0.5 percent, thus exceeding the Bradley-Burns limit on local sales tax, was amended June 13 to increase the number of years that the retail transaction and use tax may be levied by the North Lake Tahoe Transportation Authority to 30 years and increase the maximum tax rate to 1 percent. Vote: Majority.

Mental Health Services Reversion Fund. **SB 192** (Beall), requiring counties to return unspent Proposition 63 mental health care funds to the state from the 1 percent income tax surcharge passed
by voters in 2004, was gutted and amended June 12 to establish the Reversion Account and allow counties to have a prudent reserve. Vote: Majority.

**Measure on Filing Reports With BOE Now Deals With Commercial Feed.**  **SB 668** (McGuire), previously repealing the State Board of Equalization’s authorization to grant an extension of time for submitting reports required by the BOE, was gutted and amended June 11 to instead relate to commercial feed penalties. Vote: Majority.

**Worker Housing Bill Becomes Tax Exemption for Donated Cannabis.**  **SB 829** (Wiener), previously requiring a credible housing organization to obtain a permit from an enforcement agency to operate or maintain agricultural employee housing, was gutted and amended June 13 to instead provide a gross receipts and sales and use tax exemption for medicinal cannabis products that are donated to a compassionate care licensee beginning January 1, 2019. The bill additionally states the state shall not reimburse local agencies for any lost revenue. Vote: Two-Thirds.

**2018 Budget.**  **SB 840** (Senate Budget and Fiscal Review Committee), previously a budget spot bill, was amended June 11 to contain the 2018 budget. Vote: Majority.

**Suspension of Bond Rate Statement Provisions.**  **SB 863** (Senate Budget and Fiscal Review Committee), a budget trailer bill, was gutted and amended June 11 to exempt local governments from including bond rate statements in bond measure language until July 1, 2020. Vote: Majority. *(CalTax: AB 195, Chapter 105, Statutes of 2017, signed last year by Governor Jerry Brown, requires local governments that place bonds on the ballot to include a statement about the impact the bond will have on tax rates. Local governments argued this was too onerous, and lobbied for this bill to exempt them from complying until 2020).*

**School Employee Furlough Measure Becomes Firearms Bill.**  **SB 1177** (Portantino), previously setting criteria for local education agencies in regard to remitting payments to the Summer Furlough Fund, was gutted and amended June 14 to instead extend various firearm sales restrictions to all types of firearms rather than just handguns. Vote: Majority.

**WASTE, FRAUD & MISMANAGEMENT:**

**Your Tax Dollars at Work**

**School District Message Touts Candidate for Congress.** In a “special end of the year message” sent June 13 to parents of students in the Sacramento City Unified School District, the district included a large photo of smiling Congresswoman Doris Matsui, along with a link to a 2½-minute video of Matsui speaking about gun legislation and praising students for their civic involvement. The district’s message includes a statement that “Congresswoman Matsui recognizes the world our students now live in has changed and has offered some inspiring words of wisdom to share with the class of 2018 and all of our students.”

Observers noted that the district’s message could be considered a use of taxpayer dollars to support a political candidate, as Matsui currently is a candidate for reelection to California’s Congressional District 3. In November, she will face fellow Democrat Jrmar Jefferson. Matsui is considered the
overwhelming favorite, having finished approximately 75 percentage points ahead of Jefferson in the June 5 primary election.

**Audit of School District Finds Possible Fraud or Misappropriation.** A state audit of the San Ysidro School District found that two former school district administrators who abruptly resigned last year overpaid themselves a combined sum of more than $300,000 and received reimbursements for questionable expenses paid with personal credit cards.

The report indicates collusion between former Superintendent Julio Fonseca and former Deputy Superintendent Arturo Sanchez-Macias. Both men worked at the district for about two years, before their sudden departures.

The report concluded there was “sufficient evidence to demonstrate that fraud, misappropriation of funds or other illegal fiscal activities may have occurred in the specific areas reviews.”

Fonseca, who was paid at least $282,000 in annual salary and benefits, resigned in September and received approximately $375,000 in severance pay. According to the audit, he was overpaid approximately $162,600, including almost $56,000 in improper vacation payouts and $107,000 in improper term life insurance payouts.

The report said Sanchez-Macias received excess pay of $161,300, including $47,380 in improper vacation pay, $100,000 in term life insurance cash payouts, and overpayment of $14,100 in salary.

In addition to the payouts, the two men improperly billed the district for expenses, often without approval and the necessary documentation, the audit found.

“The findings should be of great concern to the San Ysidro School District and the San Diego County Office of Education and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets, or other illegal fiscal activities, in the future,” the report stated. (Source: *San Diego Union-Tribune*, June 14.)

**POTPOURRI:**

**Symposia, Sightings, Salutes & Snafus**

**Theft Increased After State Reduced Penalties.** California voters’ decision to reduce penalties for drug and property crimes in 2014 contributed to a jump in car burglaries, shoplifting and other theft, researchers reported.

*The Associated Press* reported June 13: “Larcenies increased about 9 percent by 2016, or about 135 more thefts per 100,000 residents than if tougher penalties had remained, according to results of a study by the nonpartisan Public Policy Institute of California. ... Thefts from motor vehicles accounted for about three-quarters of the increase. San Francisco alone recorded more than 30,000 auto burglaries last year, which authorities largely blamed on gangs. Shoplifting may be leveling off, researchers found, but there is no sign of a decline in thefts from vehicles.”
Proposition 47 lowered criminal sentences for drug possession, theft, shoplifting, identity theft, receiving stolen property, writing bad checks and check forgery from felonies to misdemeanors.

“Violent crime spiked by about 13 percent after Proposition 47 passed, but researchers said the trend started earlier and was mainly because of unrelated changes in crime reporting by the FBI and the Los Angeles Police Department,” The Associated Press reported.

Researchers compared California’s crime trends to those in other states with historically similar trends. They found the increase in California’s violent crime rate was less than that of comparison states, but larcenies jumped in California as they declined elsewhere.

Complaint Against Assembly Member Cristina Garcia to Get “Further Investigation.” Assembly leaders have informed a lawyer representing a former legislative staffer than a harassment allegation made by the staffer against Assembly Member Cristina Garcia will get “further investigation” after the lawyer complained that the initial investigation was flawed.

The staffer alleges that Garcia inappropriately touched him after a legislative softball game four years ago. A months-long investigation did not substantiate that claim, but the staffer appealed on the grounds that the investigator failed to interview key witnesses. In response, the Assembly Rules Committee ordered that “further investigation be conducted with respect to ... the issues you identify in your Notice of Appeal,” and indicated that a different investigator will handle the appeal.

Garcia said the original investigation was accurate, and said it is “unacceptable” that the letter about the new investigation “was leaked to the news media before it was received by my legal counsel.” (Source: Los Angeles Times, June 13.)

TAX TRIVIA:
What California Official Was Sued Over Tax-Related Parody Song?

What elected official who sought to unseat U.S. Senator Barbara Boxer in 2010 was sued by three songwriters, including Don Henley of the Eagles, for copyright infringement relating to the campaign’s production of two parody songs titled “All She Wants to Do Is Tax” and “After the Hope of November Is Gone”? (Answer on the last page.)
BLAST FROM THE PAST:
In the 1960s, Tax on Household Property Varied Dramatically From County to County

“The third part of Proposition 1A was the exemption of household personal property starting in 1969-70. Since local assessors use such a wide variety of methods in assessing this type of property, it was impossible for the state to reimburse local governments for the cost of this exemption. For example, the assessed value of these properties ranged from a low of $6 per capita in Shasta County to a high of $118 per capita in Sierra County. There were at least three counties (Contra Costa, Santa Cruz and San Luis Obispo) which administratively exempted this property before the adoption of Proposition 1A.”

— Legislative Analyst A. Alan Post, on January 16, 1969, in a presentation to the California Chamber of Commerce, discussing a ballot measure approved by voters in November 1968.

COMING UP:
Legislative Committee Hearings, Office of Tax Appeals Hearing

Monday, June 18

ASSEMBLY REVENUE AND TAXATION COMMITTEE HEARING
State Capitol, Room 126, 2:30 p.m.
Agenda includes:

- **SB 581** (de León), creating the California Excellence Fund for “contributions” made by taxpayers in support of education. This legislation is intended as a work-around to the new limit on the federal deduction for state and local taxes.

JOINT HEARING OF THE SENATE TRANSPORTATION AND HOUSING COMMITTEE AND ASSEMBLY TRANSPORTATION AND REVENUE AND TAXATION COMMITTEES
State Capitol, Room 4202, 2:30 p.m.
Subject: Informational hearing on the gas tax repeal measure that is likely to appear on the November ballot (signatures have been submitted, and are pending verification).

Tuesday, June 19

OFFICE OF TAX APPEALS HEARING
355 South Grand Avenue, South Tower, 23rd floor, Los Angeles, 9 a.m.
**Agenda:** One tax appeal is scheduled – a personal income tax appeal in which one of the issues is whether a frivolous appeal penalty should be imposed. The hearing marks the first at this location, and the first in which new Administrative Law Judge Daniel Cho (see story on page 9) is part of the three-member panel hearing the appeal.
**SENATE GOVERNANCE AND FINANCE COMMITTEE HEARING**
State Capitol, Room 112, 9:30 a.m.
Agenda includes:

- **AB 2920** (Thurmond), CalTax-opposed legislation authorizing the city of Berkeley to exceed the Bradley-Burns sales tax limit by 0.5 percent and authorizing the North Lake Tahoe Transportation Authority to increase sales and use taxes by 0.5 percent.

**ASSEMBLY LABOR AND EMPLOYMENT COMMITTEE HEARING**
State Capitol, Room 447, 2:15 p.m.
Agenda includes:

- **SB 1284** (Jackson), CalTax-opposed legislation requiring private companies to submit specified pay data to the Legislature or face civil penalties.

The next issue of the *CalTaxletter* will be published June 22, 2018.

**Tax Trivia Answers:** Chuck DeVore, then in his last term in the Assembly. A settlement was reached in August 2010, and DeVore and a campaign worker issued a written apology expressing sorrow for not seeking appropriate license authority and regret for “all inaccurate, derogatory or disparaging remarks made about Mr. Henley during the course of this dispute.”