

**To:** City of Cupertino  
Legislative Review Committee

**From:** Townsend Public Affairs, Inc.

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**Subject:** Legislative Update

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For the last three months, the Governor and his Administration have focused their efforts on responding to the COVID-19 crisis. Governor Newsom has been holding daily press briefings to update the public on the status of COVID-19 cases and executive actions taken in response to the pandemic. In the month of April, the Governor signed 17 Executive Orders and introduced several initiatives to help the State respond to the crisis. Governor Newsom also unveiled six indicators that the Administration would be monitoring, evaluating, and advancing in order to re-open the State's economy.

While the Legislature was not in session for much of March and all of April, members of the Assembly and Senate continued to work from their district offices, while legislative leadership worked out the details for the remainder of the legislative session. Assembly Speaker Anthony Rendon announced that the Assembly would return to the Capitol on May 4<sup>th</sup> to consider a limited number of bills; however, Senate Pro Tempore Toni Atkins, citing medical and logistical concerns, announced that the Senate would not return to session until May 11<sup>th</sup>. As such, the two Houses are currently operating on different legislative calendars until mid-July. That said, no floor sessions have been scheduled in May for either House, and most of the legislators' attention is currently focused on considering a limited number bills in policy committees, as well as putting together a state budget prior to the June 15<sup>th</sup> constitutional deadline.

Prior to returning to session, legislative offices were alerted by both the Speaker and the Senate Pro Tempore that the number of bills remaining in the legislative session are going to be significantly reduced. Legislators have been asked to only advance bills that they feel are essential to be considered this year so that the focus of the Legislature for the remainder of the session can remain on COVID-19, housing, and wildfire resiliency. Committee hearings resumed in the Assembly on May 4<sup>th</sup> and on May 11<sup>th</sup> in the Senate. As of now, each Assembly policy committee will only hold one hearing to consider the paired down number of bills within their jurisdiction, and the bulk of the committees in the Senate are only holding one hearing.

#### Governor's COVID-19 Action Summary

Below is a summary of the major COVID-19 actions taken by the State Administration in April:

- **April 24<sup>th</sup>: Senior Meal Program:** The State launched a program that will enlist community restaurants to prepare and deliver meals to older Californians who are isolating at home during California's stay at home order.



- **April 23<sup>rd</sup>: Stimulus Paychecks:** Governor Newsom issued an Executive Order to stop debt collectors from garnishing COVID-19-related financial assistance.
- **April 17<sup>th</sup>: Economic Recovery Task Force:** Governor Newsom established a state task force on Business and Jobs Recovery to chart a path forward on recovery in the wake of COVID-19.
- **April 15<sup>th</sup>: Unemployment Assistance:** The State Employment Development Department announced implementing a new process for those applying for Pandemic Unemployment Assistance, including the self-employed and independent contractors. The program officially opened on April 28<sup>th</sup>.
- **April 14<sup>th</sup>: Roadmap for Re-Opening:** Governor Newsom outlined six indicators that California will consider before modifying the stay-at-home-order and other COVID-19 interventions.
- **April 9<sup>th</sup>: Unemployment Benefits:** The state began implementing new federal benefit payments of \$600 on top of the weekly benefit received by California workers as part of the new Pandemic Additional Compensation (PAC) initiated by the CARES Act.
- **April 4<sup>th</sup>: Testing:** The Governor created a COVID-19 testing task force, a public-private collaboration that will work with stakeholders to rapidly boost testing capacity.
- **April 2<sup>nd</sup>: Water Shutoffs:** Governor Newsom signed an Executive Order that restricts water shutoffs to homes and small businesses while the state responds to the COVID-19 pandemic.

### May Revise

On May 14<sup>th</sup>, Governor Newsom released his May Revise of the proposed state budget for fiscal year 2020-21. As was anticipated, the May Revise is a dramatic change from the Governor's January Budget, as it reflects the impact that the coronavirus pandemic has had on the State's economy, as well as the increased demand for many services provided by the State. The full impact of the pandemic has led to a projected budget deficit of \$54 billion, with an out-year structural deficit of approximately \$45 billion per year. This deficit has materialized in the last three months, as the State has seen a 22.3% reduction in state revenues generated from sales tax, personal income tax, and corporate taxes. In response, Governor Newsom has proposed a budget that addresses the short fall through a mix of budget cuts, revenue generating measures, internal borrowing, accessing of state reserves, and increased resources from the federal government.

### *Big Picture*

The May Revise budget proposal contains \$133.9 billion in General Fund spending. This represents a reduction in General Fund spending of \$12.5 billion, or a 9.4% decrease, from the current budget year. The budget proposal addresses the projected \$54.3 billion budget deficit by utilizing the following strategies:



- **Cancelled Expansions and Other Reductions (\$8.4 billion):** The May Revise cancels \$6.1 billion in program expansions and spending increases by canceling/reducing a number of one-time spending items that were included in the 2019 state budget. The May Revise also redirects \$2.4 billion in extraordinary payments to CalPERS to temporarily offset the State's CalPERS obligations in 2020-21 and 2021-22.
- **Reserves (\$8.8 billion):** The May Revise proposes to draw down the State's Rainy Day Fund over the next three years, including \$7.8 billion from the Rainy Day Fund, \$524 million from the Public School System Stabilization Account, and \$450 million from the Safety Net Reserve in FY 2020-21.
- **Borrowing/Transfers/Deferrals (\$10.4 billion):** The May Revise includes \$4.1 billion in borrowing and transfers from special funds, as well as additional funding deferrals that will free up \$6.3 billion in funding for use in FY 2020-21.
- **New Revenues (\$4.4 billion):** The May Revise proposes to generate \$4.4 billion in new revenue by temporarily suspending net operating losses and temporarily limits the amount of tax credits that a taxpayer can use to \$5 million in any given tax year.
- **Federal Funds (\$8.3 billion):** The May Revise reflects an \$8.3 billion General Fund savings by utilizing funds that have been provided by the Federal Government, in response to the coronavirus, in lieu of General Fund dollars for qualifying expenditures.
- **Triggered Spending Reductions (\$14.0 billion):** The May Revise contains \$14 billion in reductions to base programs and employee compensation, which will be triggered if the State does not receive additional funding from a federal Phase 4 stimulus bill.

While acknowledging that the State needs to deal with the massive budget deficit, as a result of the coronavirus, the Governor indicated that the May Revise still works to protect the Core Values of Public Education, Public Health, Public Safety, and supporting those facing the greatest hardships.

Below are some key items contained within the Governor's May Revise. Additional information on proposals within the May Revise, and modifications to the January Budget Proposal, can be found in the attached May Revise Summary prepared by the Department of Finance.

#### *COVID-19 Response*

The May Revise incorporates significant funding in the current year, as well as in the upcoming budget year, for response to the coronavirus. The May Revise contains \$1.8 billion in funding for the current year to reflect activities that have been undertaken, which will largely be funded with funding received from the federal government, including costs which are anticipated to be reimbursed by FEMA.

In the 2020-21 fiscal year, the May Revises proposes:

- \$450 million to cities from the Coronavirus Relief Fund for eligible homeless and public safety activities (cities with populations above 300,000 will receive direct allocations and all other cities will be provided funding through their counties).
- \$1.3 billion to counties from the Coronavirus Relief Fund for public health, behavioral health, and other health and human services
- The remaining Coronavirus Relief Fund dollar will be utilized for state offsets of costs for vulnerable populations and public health and safety activities (\$3.78 billion); and K-12 learning loss mitigation (\$4 billion).



- Maintain the Governor's proposal to waive the \$800 minimum franchise tax for the first year of business creation.
- An additional \$50 million (for \$100M total) to the IBank's Small Business Loan Guarantee Program.

### *Housing, Homelessness and Local Government*

The May Revise contains several proposals intended to create new housing, as well as to protect renters and homeowners.

- \$500 million in low-income housing state tax credits
- \$300 million in National Mortgage Settlement Funds for housing counseling and mortgage assistance
- \$31 million in National Mortgage Settlement Funds to provide grants to legal aid services organizations

The May Revise contains several proposals aimed at reducing homelessness in California, including:

- \$750 million in federal funding to be used for the purchase of hotels and motels secured through Project Roomkey. These properties would be operated by local governments or non-profit providers.

### *Education*

Due to the reduced level of revenue coming into the State, the May Revise estimates that the Proposition 98 guarantee will decline by \$19 billion over what was projected in January. The May Revise proposes to mitigate these losses through a mix of solutions, including revenue generation (which will increase the overall amount of Proposition 98 funding), the use of federal funds, and revising CalPERS/CalSTRS contributions.

Additionally, the May Revise proposes to accelerate the recovery of the Proposition 98 funding level by providing a supplemental appropriation, above the required Prop 98 funding level, equal to 1.5% of General Fund revenue, up to a cumulative \$13 billion.

In order to account for the loss in funding, the May Revise proposes several reductions, including:

- 10% reduction (\$6.5 billion) in the Local Control Funding Formula. This reduction will be triggered off if the federal government provides sufficient funding to backfill this cut.
- The withdrawing of most of the education related proposals that were included in the Governor's January Budget (15 proposals totaling over \$1.8 billion).
- The suspension of the 2.31% COLA for eligible programs.
- A \$300 million decrease for the construction of new, or retrofitting of existing, facilities for full-day kindergarten.

### Other

The May Revise provides significant funding for the Office of Emergency Services to enhance the State's emergency preparedness and response capabilities. Specifically:

- \$50 million for Community Power Resiliency to help support critical services that are vulnerable during power outage events, including schools, county elections offices, and food storage reserves. This funding will support a matching grant program to help local governments prepare for, and respond to, the impacts of power outages.



- An additional \$38.2 million for the California Disaster Assistance Act (for \$100.8 million total) which is used to repair, restore, or replace property damaged or destroyed by a disaster or to reimburse local governments for eligible costs associated with emergency activities.
- \$2 million for the Wildfire Forecast and Threat Intelligence Integration Center to enhance the State's emergency response capabilities.

### Development Impact Fee Update

Earlier this year, several State lawmakers introduced legislation that would significantly affect the process that cities use for development impact fees. Impact fees and other development fees have historically been a source of funding for local governments to deal with the impacts and infrastructure needs of new housing units and legislative changes to adjust impact fee levels could potentially reduce city revenue to expand services and create needed infrastructure. Throughout the year, TPA has been working diligently on this issue to communicate the local government perspective to key lawmakers, including the following:

- 1) The Senate Pro Tempore's office
- 2) The Assembly Speaker's office
- 3) The Senate Governance and Finance Committee
- 4) The Assembly Local Government Committee
- 5) The Assembly and Senate Housing Committees
- 6) Authors of impact fee legislation, specifically Assembly Member Tim Grayson (D-Concord)

Through these networks, TPA has learned that the Assembly Housing Committee is unlikely to move forward with development impact fee legislation this year. The Speaker's Office, as well as the Assembly and Senate Local Government Committees, have expressed concerns regarding prioritizing impact fee legislation in the current economic climate.

TPA will continue to advocate on behalf of the City and ensure that cities' revenue will not be impacted by impact fee legislation in light of COVID-19.

### Priority Legislation

As mentioned above, both the Assembly and Senate have indicated that they plan to limit the number of bills that will be considered in each House this year, so that they can focus on the immediate needs related to COVID-19 response, housing, and wildfires. The Assembly has been conducting committee hearings in advance of their new House of Origin Policy Committee Deadline on May 29<sup>th</sup>; the deadline for Senate policy committees is June 6<sup>th</sup>. At this point, TPA continues to monitor all legislation that was introduced this year. Once both Houses have moved through their policy committee deadlines, the majority of legislation that was introduced in 2020 will no longer be eligible for consideration, and we will provide more specific updates. In the meantime, below is a list of priority two-year bills, and new bill introductions, that we continue to monitor.

*AB 725 (Wicks): Housing Element: Moderate-Income and Above Moderate-Income Housing*



The Planning and Zoning Law requires that the housing element include, among other things, an inventory of land suitable for residential development, to be used to identify sites that can be developed for housing within the planning period and that are sufficient to provide for the jurisdiction's share of the regional housing need determined pursuant to specified law. This bill would require that at least 25% of a metropolitan jurisdiction's share of the regional housing need for moderate-income housing be allocated to sites with zoning that allows at least 2 units of housing, but no more than 35 units per acre of housing. The bill would require that at least 25% of a metropolitan jurisdiction's share of the regional housing need for above moderate-income housing be allocated to sites with zoning that allows at least 2 units of housing, but no more than 35 units per acre of housing. **This bill passed out of the Assembly earlier this year and is currently in the Senate Rules Committee awaiting referral to a policy committee. AB 725 is not likely to be considered by a policy committee until after the House of Origin deadline, once policy committees begin considering bills from the other house.**

*AB 1279 (Bloom): Housing Development: High-Opportunity Areas*

The Planning and Zoning Law allows a development proponent to submit an application for a development that is subject to a specified streamlined, ministerial approval process not subject to a conditional use permit if the development satisfies certain objective planning standards, including that the development is (1) located in a locality determined by the Department of Housing and Community Development to have not met its share of the regional housing needs for the reporting period, and (2) subject to a requirement mandating a minimum percentage of below-market rate housing, as provided. This bill would require the department to designate areas in this state as high-opportunity areas, as provided, by January 1, 2022, in accordance with specified requirements and to update those designations within 6 months of the adoption of new Opportunity Maps by the California Tax Credit Allocation Committee. **This bill passed out of the Assembly last year and is currently in the Senate Housing Committee. AB 1279 is not likely to be considered by committee until after the House of Origin deadline, once policy committees begin considering bills from the other house.**

*AB 1924 (Grayson): Housing Development: fees.*

Would require that a fee levied or imposed on a housing development project by a city be proportionate to the square footage of the proposed unit or units. **This bill has been referred to the Assembly Local Government and Housing and Community Development Committees, but not set for hearing. It is unlikely this measure will be considered this year.**

*AB 2093 (Gloria): Public records: writing transmitted by electronic mail: retention*

This bill would require a public agency, for purposes of the California Public Records Act, to retain and preserve for at least 2 years every public record, as defined, that is transmitted by electronic mail. This is a re-introduction of AB 1184 from last year that was vetoed by the Governor. **This bill was approved by the Assembly Judiciary Committee on a 10-1 vote and is currently in the Assembly Appropriations Committee. The bill has not yet been set for a hearing but must be considered by the Committee prior to the June 5<sup>th</sup> fiscal committee deadline.**

*AB 3173 (Bloom): Microunit Buildings*

This bill would require a city or county with a population of more than 400,000 people to permit the building of microunit buildings, as defined, in any zone where multifamily residential buildings are permitted. The bill would require that microunit buildings be permitted on the same basis as multifamily dwelling units. The bill would set minimum standards for the construction of microunit





buildings, including floor-space ratios and setback requirements. The bill would require that specified percentages of microunit buildings be set aside for affordable housing. **This bill has been referred to the Assembly Housing and Community Development and Local Government Committees, but has not yet been set for a hearing. It is unlikely this measure will be considered this year.**

#### *Housing Production Legislation*

Earlier in the year, in the wake of the defeat of SB 50, Senate Pro Tem Toni Atkins indicated that she would be putting together a stakeholder group to consider ideas and eventually produce a housing production bill. The stakeholder efforts began in late February but were suspended once the Legislature adjourned in early-March due to the coronavirus. As of yet, the Pro Tem led working group has not yet reconvened and it is unclear if the group will be able to generate a housing production bill for consideration, or if their efforts will continue to be on pause while the Legislature deals with the state budget and coronavirus response legislation.

