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IN THIS ISSUE:

BUDGET CONFERENCE COMMITTEE TAKES LOCAL GAS TAX FOR TWO YEARS: PROPOSAL WOULD DEVASTATE CITY STREET MAINTENANCE AND TRAFFIC SAFETY

No Decision yet on Proposal to Borrow Local Property Taxes

Budget activities in the Capitol ended on Thursday with devastating news to local governments when the Budget Conference Committee approved taking two years of local Highway User Tax Account (HUTA) funds. This amounts to $986 million in FY 2009-10 and $750 million in FY 2010-11. The vote was party-line: Democrats "Aye", Republicans "No." The action by the Budget Conference Committee, if sustained by the legislature, will directly contradict limits placed on the legislature's use of HUTA funds in Proposition 5 in 1974 and Prop. 2 in 1998. The action also has tremendous implications for city budgets which have relied on this stable source of revenue for important transportation projects since the 1970s. The League will be delivering the Governor and Legislature an authoritative legal opinion questioning the constitutionality of the HUTA raid.
For more, see Page 2.

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PARTICIPATE NOW IN LEAGUE SURVEY ON IMPACT OF BUDGET PROPOSALS

City officials that have not done so are urged to respond to a League survey on the impact cities will experience if the state borrows 8 percent of local property tax, takes the local share of the gas tax and borrows Proposition 42 funds to balance the state budget. *For more, see Page 3.*

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INVITATION TO LOCAL GOVERNMENT SUMMIT ON GOVERNANCE AND FISCAL REFORM JULY 17-18, SACRAMENTO

City officials are invited to attend and participate in a historic summit meeting of city, county and school officials in Sacramento, July 17-18 at the Hyatt Regency to discuss and debate the emerging proposals to reform California's governance and fiscal systems. *For more, see Page 3.*

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'Budget' Continued from Page 1…

The committee rejected a Legislative Analyst's Office (LAO) proposal to borrow Prop. 42 (sales tax on gas) funds. The committee also approved the release of $700 million in remaining Prop. 1B local street and road funds, of which $258 million remains available for cities. No action has yet been taken by the committee on the Governor's proposal to borrow local property taxes under Prop. 1A. The committee also left open an LAO proposal to take half of the VLF money dedicated to local public safety.

In Friday's Budget Conference Committee meeting, members received new trailer bill language from DOF that proposes to borrow the funds through an ERAF shift to get around the maintenance of effort requirements. Because the members received the trailer bill language within minutes of the discussion beginning, the committee closed down the meeting and continued the discussion on borrowing property taxes until some time over the weekend or Monday.

The committee meetings this week follow a great deal of activity by the League and city officials to fight proposals to borrow local property taxes as well as take these funds.

LAO had proposed borrowing local HUTA revenues for one year, which is authorized by the Constitution, but this proposal was rejected during the discussion. While these funds go to transportation projects, if the state takes them, it will have implications beyond what they traditionally support. The "Big City" mayors told Gov. Arnold Schwarzenegger on Tuesday that loss of these funds would impact public safety because cities would have to supplement transportation project needs from the General Fund.

Another ripple effect of the state taking or borrowing HUTA is the potential violation of city storm water National Pollutant Discharge Elimination System (NPDES) permits. A number of cities use their HUTA funds for street sweeping and street maintenance. In addition, many of the city storm water NPDES permits specifically state that the city must sweep the street a specified number of times per week and list specific maintenance projects in the permits.

If HUTA funds are taken, cities would be forced to backfill the funds required to do street sweeping and maintenance from other sources. Without the ability to fund street sweeping or maintenance, cities could fall out of compliance with their NPDES permit fairly quickly.

A large transportation coalition sent the Governor a letter on Friday, June 5, calling the proposal to divert and/or borrow gas taxes to close the budget gap fiscally reckless. The League joined this coalition and has posted a copy of this letter on the League's Web site.

http://www.cacities.org/resource_files/28102.June 2009 Joint CoalitionLetter No42Borrowing 6 5 09.pdf

While Thursday's action by the Conference Committee will have many severe consequences on local street and road programs, several things could alter this course:

1. The budget fight may bog down on other provisions, giving local government, transportation groups, affected local employees and local residents time to rally opposition to change or reverse this proposal.
2. The Republicans have the ability to hold out with the two-thirds vote, but some Republicans on the committee indicated that they would support a one-year grab of these funds.
3. Big-Five discussion may alter shape of the final deal (there has been some discussion of the need to increase state fees or gas taxes.)
4. The League's legal opinion on the unconstitutionality of this proposal will be shared soon with the Governor, and may change his mind about the viability of this proposal.
5. A lawsuit could be filed to seek an injunction while the courts review the constitutionality of this proposal.

League Officers Meet with Governor

A majority of the League's executive officers came to Sacramento on Wednesday to meet with the Governor. Present at the meeting was President and Rolling Hills Estates Mayor Judy Mitchell, Second Vice President and Modesto Mayor Jim Ridenour, Immediate Past President and former San Diego City Council Member Jim Madaffer, Executive Director Chris McKenzie and Legislative Director Dan Carrigg.

It was a good meeting and the officers reiterated our strong opposition to a budget based on borrowing as well as proposals to take Highway User Tax Account (HUTA), or gas tax, from cities as a revenue source for the state budget.

Executive Director McKenzie told the Governor that DOF's proposal to take the local share of HUTA is unconstitutional and that the League would provide him with an authoritative legal opinioin on the matter in the near future (see above). The Governor seemed very interested in receiving the legal analysis the League has completed on this matter. The Governor also noted the growing opposition to the Prop. 1A borrowing by Senate Republican Leader Dennis Hollingsworth (R-Murrieta) and Senate President Pro Tem Darrell Steinberg (D-Sacramento). This caused him to wonder if the Legislature is open to other cuts or steps to avoid it. The Governor said that he does not want to implement policies that would cause permanent harm to local government.

President Mitchell and Executive Director McKenzie delivered a memo to the Governor on June 10 outlining the impact of the proposed borrowing of Prop. 1A and the unconstitutional HUTA raid. A copy of that letter has been posted on the League's Web site http://www.cacities.org/resource_files/28103.GovernorJune10.pdf.

Big City Mayors Meet with Governor

On Tuesday, a number of the "Big City" mayors met with the Governor, continuing their efforts from last week to lobby on budget issues. Wednesday's meeting included Sacramento Mayor Kevin Johnson, Los Angeles Mayor Antonio Villaraigosa, San Diego Mayor Jerry Sanders, Fresno Mayor Ashley Swearengin and Santa Ana Mayor Miguel Pulido. The mayors again told the Governor how cities would be devastated if the state borrows or takes local revenues for the state's budget.

Mayor Villaraigosa said that Los Angeles would be forced to lay off approximately 1,400 police officers if his city loses 8 percent of property taxes. San Diego, Mayor Sanders said, would have to cut an additional $75 million from the city budget beyond the $180 million they've already cut, if the state takes these local funds.

Save Your City Campaign

The League has been working against the proposal to borrow 8 percent of cities' share of property tax since it emerged. Fighting this borrowing proposal was the impetus behind the launch of www.SaveYourCity.net several weeks ago. The Web site's momentum has been tremendous with close to 400 video testimonials uploaded on the Web site.

This week, Assembly Member and Local Government Committee Chair Anna Caballero (D-Salinas) came out against borrowing local revenues and posted her own video communicating her stand. As former mayor of Salinas, the Assembly member knows first hand how this proposal would impact cities. Assembly Member Caballero is the first Democratic legislator to come out against borrowing.

Senate Republican Leader Dennis Hollingsworth (R-Murrieta) also posted a video on www.SaveYourCity.net this week saying that the Senate Republican Caucus is against borrowing Prop. 1A and that this is one of the worst kinds of borrowing because it affects public safety and vital services at the local level.

When Senate President Pro Tem Darrell Steinberg (D-Sacramento) announced his budget plan on Tuesday, June 9, he also said that he and his fellow Democrats were against the Governor's proposal to borrow the almost $2 billion in local property taxes for the state's deficit. The Senate President Pro Tem proposes using the state's $4.5 billion reserve to close the $24 billion deficit.

Cities across California have continued to pass resolutions declaring a state of severe fiscal hardship. Since May 11, 236 cities have taken this action to communicate the devastation of proposals to borrow or take local government revenues would have on cities.

Assembly Speaker Outlines Revenue Generating Ideas

Assembly Speaker Karen Bass (D-Los Angeles) said on Wednesday that she's seeking new revenue sources to help balance the budget without decimating programs. However, as reported in the *Sacramento Bee* on June 11, the Speaker did not comment on the specific options included in her proposal.

'Survey' Continued from Page 1…

Participation in the survey is important because the information gathered is extremely helpful in the League's ability to communicate the full impact of these budget proposals on cities.

The survey is available online at:
http://cacities.qualtrics.com/SE?SID=SV_9GFyMiBtlAmy5VO&SVID=Prod.

The League wishes to thank the cities that have already taken the survey.

'Summit' Continued from Page 1…

Co-sponsored by the League through the City County School Partnership, the event is a great opportunity to help influence the future direction of the state. The summit was originally proposed by the League's board of directors.

Summit participants will:

- Hear from experts;
- Consider whether we need a constitutional convention; and
- Work with peers to create a plan for reform local governments need.

Details

Registration for the summit is $80 for elected and senior appointed city and county officials and school board members, $120 for others.

Register online at www.cacities.org/events. County officials should register through CSAC and school board members through CSBA.

Hotel reservations can be made through Hyatt. Call (800) 233-1234 and ask for the special "Local Government Summit" room block rate of $99 (reduced from $124) plus taxes for the night of July 17.

Become a Recycling Market Development Zone

The California Integrated Waste Management Board began the 2009 cycle of its Recycling Market Development Zone (RMDZ) Designation Program at its March meeting. This action was taken to fill seven vacant RMDZ slots.

The program provides direct low-interest loans to businesses and local governments located in designated zones that increase diversion of non-hazardous solid waste from landfills. Becoming a RMDZ enables local governments to access a number of benefits including: relaxed building codes and zoning laws, streamlined local permit processes, reduced taxes and licensing, and increased and consistent secondary material feedstock supply.

The RDMZ 2009 Web site includes various resources including the application, instructions and a question and answer section. http://www.ciwmb.ca.gov/rmdz/Designation/default.htm

Although the official application period doesn't start until July 1, the application and supporting materials were released early to ensure that applicants have enough time to complete the California Environmental Quality Act review process before the application deadline.

Interested applicants are strongly encouraged to begin this process as soon as possible. Regulations require that applicants submit their RMDZ application to the board no later than 120 days after the designation cycle begins—Oct. 29 at 4 p.m.

For more information or questions regarding this program, please contact Mitch Delmage, RMDZ Designation Coordinator, at (916) 341-6290.

Additional ARRA Funding Opportunities for Cities

The League has continued to update the "City Funding Book," which was originally published in February to highlight funding opportunities for cities contained in the American Recovery and Reinvestment Act (ARRA).

The most recent update includes information on several additional programs that present important opportunities for cities. The following summarizes these additions. (For more information see the June 12 version of the "City Funding Book", available on the League Web site at www.cacities.org/federalstimulus.)

New Financing Options—Bonds and Tax-Credit: ARRA provides significant new financing methods for state and local governments by expanding the types of projects that can be financed on a tax-exempt basis, creating several new categories of tax-exempt and tax-credit bonds, and giving issuers the temporary ability to issue governmental obligations as either taxable tax-credit bonds or subsidy bonds. ARRA also increases the tax benefits afforded to banks and other holders of tax-exempt bonds. **The majority of these provisions are temporary and only apply to obligations issued in 2009 and 2010.**

The following information summarizes key information on the types of bonds available. Local agencies may be eligible to utilize all of these options. Cities should consult with bond counsel to learn more about these options and their applicability to city projects.

Build America Bonds (BABs): These are "taxable" bonds that can be issued by the city. The city however can chose to:

- Direct a federal interest subsidy to the issuer equal to 35 percent of the interest payable on the BAB (subsidy BABs); or
- Elect to authorize a federal tax credit to bondholders equal to 35 percent of each interest payment payable on each interest payment date (credit BABs).

Recovery Zone Economic Development Bonds (RZEDBs): This bonding option is available to cities with a population of over 100,000 and counties that have designated a "recovery zone" within their jurisdiction. Bonds under this category may be issued by qualifying cities and counties as "taxable."

In contrast to the BAB subsidy or credit of 35 percent, RZEDBs provide:

- A direct federal subsidy to the issuer equal to 45 percent of interest; or
- A federal tax credit to bond holders equal to 45 percent of interest.
- Issuers must be in control of "recovery zone" designations.

Recovery Zone Facility Bonds: ARRA creates a new tax-exempt qualified private activity bond, known as Recovery Zone Facility Bonds (RZFBs), to support trades or businesses in areas suffering from economic distress, and provides $15 billion of authority for counties and large cities (but not states or other governmental units) to issue such bonds. Typically, the bonds would be issued by the city or county and proceeds loaned (or the project leased or sold) to a for-profit company as the true borrower and real party in interest.

Small Issue Industrial Development Bonds (IDBs): ARRA provides for a significant expansion of the current ability of state and local governments to issue small issue IDBs in 2009 and 2010 to finance facilities beyond manufacturing of tangible personal property. As under current law, projects are subject to a $10 million maximum issue size.

Tax-Credit Bonds: There are several tax-credit bond provisions in ARRA, in addition to the tax credit type of "Build America Bonds" described in No. 1 (above) and in the "Recovery Zone Economic Development Bonds" described in No. 2 (above).

These target the following sectors:

1. Recovery zones as described above;
2. "Green" energy; and
3. Public schools.

Unlike bonds that bear interest that is exempt from income tax, tax-credit bonds pay the holder a federal tax credit in lieu of interest. With tax-credit bonds, the federal government is directly providing the subsidy to the bondholder rather than the issuer paying the bondholder interest.

Of particular interest to cities are:

- **New Clean Renewable Energy Bonds (CREBs):** Up to $2.4 billion ($1.6 billion more than available currently) may be issued by all types of state and local government issuers, municipal utilities, electric cooperatives and certain cooperative lenders. A broad range of renewable generation facilities are eligible for financing. The project must be owned by a municipal utility, a state or local government, or a cooperative electric company, but may be leased to or operated by or its output sold to a private company. New CREBs provide bondholders with federal tax credits equal to 70 percent of the interest on the bonds. The balance of any interest is paid by the issuer.

- **Qualified Energy Conservation Bonds (QECBs):** ARRA provides authority to issue an additional $2.4 billion (for a total of $3.2 billion) of Qualified Energy Conservation Bonds (QECBs) originally authorized by legislation in 2008. All types of state and local governments may issue these bonds to fund a broad array of "green" expenditures including: (1) implementing green community programs, (2) grants to support research in emerging energy technologies, (3) rail and bus facilities, (4) public education programs, (5) renewable energy facilities, and (6) demonstration projects for emerging energy technologies.

Information for the preceding section was obtained by League staff through consultation with Congressional staff, the State Treasurer's office, the California Infrastructure Bank, and a publication by Orrick Herrington & Sutcliffe LLP, entitled "The American Recovery and Reinvestment Act of 2009: What It Means to You and Your Financing Options". The League thanks Orrick for granting permission to adapt their publication. For more details on these bonding options, please visit www.orrick.com/fileupload/1657.pdf.

2009 Summer Youth Employment Program: ARRA includes $1.2 billion in grants to states to supplement existing Workforce Investment Act (WIA) youth activities, including summer employment. WIA youth funds provide economically disadvantaged youth with training and other services to provide them with the skills necessary to obtain unsubsidized employment, complete secondary or post-secondary education, enter the military service, or enroll in a qualified apprenticeship program. The $415 million allocated to California nearly doubles the amount of WIA funds the federal government has made available to California in the current fiscal year.

Strengthening Communities Fund – Nonprofit Capacity Building Program: Cities are among the organizations eligible to apply for grants up to $1 million and serve as a sponsoring organization under the Strengthening Communities Fund (SCF) Nonprofit Capacity Building program. (Grantees must provide at least 20 percent of the total approved cost of the project.) The goal of this program is to better equip community organizations to help low-income individuals secure and retain employment, earn higher wages, obtain better-quality jobs, and gain greater access to State and Federal benefits and tax credits.

Transportation Investment Generating Economic Recovery (TIGER): This program administered by the Department of Transportation consists of $1.5 billion in discretionary grants for projects that include, but are not limited to, capital investments in:

1. Highway or bridge projects;
2. Public transportation projects;
3. Passenger and freight rail transportation projects; and
4. Port infrastructure investments, including projects that connect ports to other modes of transportation and improve the efficiency of freight movement.

Local governments are eligible, along with states, U.S. territories, tribal governments, transit agencies, port authorities, other political subdivisions of state or local governments, and multi-state or multi-jurisdictional applicants.

Check the City Funding Book Regularly. To view new and updated information on these and other funding opportunities, visit the League's Web site at www.cacities.org/federalstimulus.

California I-Bank to Hold June 19 Briefing on New Bonding Option for Cities and Counties

The California Infrastructure Bank (I-Bank) is interested in working with eligible cities and counties to pool bond sales within California of Recovery Zone Economic Development Bonds (RZEDBs), as authorized under the federal American Recovery and Reinvestment Act.

I-Bank representatives believe that the larger offerings will be more attractive to the bond buyers, and benefit the cities and counties issuing bonds by achieving greater economies of scale that will allow them to access the taxable market in a cost effective manner, achieve lower interest costs, and achieve lower administrative costs to participating local agencies.

The I-Bank will conduct a detailed briefing on this program on June 19, at the Ziggurat Building in West Sacramento, from 8:30 a.m. to 3:15 p.m. Registration is $75. Online registration is available at www.treasurer.ca.gov/cdiac/seminars.asp. Interested cities may also contact the I-Bank via email at ibank@ibank.ca.gov.

Lobbying Time on Budget Issues during Sacramento Policy Committee Meetings

With budget discussions in the Capitol likely still in full gear when the League's policy committees meet in Sacramento, June 25-26, there will be special budget briefings for committee members and opportunity to lobby.

Both days of policy committee meetings with begin with a budget briefing at 10 a.m. in room 315 (3rd floor) in the Sacramento Convention Center. Following the briefings, members will move to their individual policy committee meetings to address their full agendas.

Policy committee meetings will end early at 1:30 p.m. so that members can go across the street to the Capitol to lobby on the budget.

The League's regional representatives will be contacting policy committee members from their regions to help set up meetings with the appropriate legislators or staff.

Court Rules for Counties in Property Tax Administration Fee Dispute

The Los Angeles County Superior Court recently ruled in favor of counties in the long-running dispute between cities and counties over the Property Tax Administration Fee (PTAF). The dispute centers over how to calculate the reimbursement a county is entitled to for its costs of administering the Triple Flip and the VLF Backfill.

Cities contend that state law entitles counties to only their actual costs. Counties, on the other hand, contend that since both the Triple Flip and the VLF Backfill are funded through property tax, they are allowed to include the amount of this property tax in the PTAF calculation.

In real numbers, Los Angeles County's actual cost for administering the Triple Flip and the VLF Backfill is $35,000 per year. By including the Triple Flip and the VLF Backfill in the PTAF calculation, the county collected additional fees of more than $4.8 million in FY 2006-07, and more than $5.3 million in FY 2007-08.

Forty-seven cities in Los Angeles County sued the county in 2008 seeking a change in how the county calculates the PTAF. Last week, the Superior Court rejected the cities' argument that the county was only entitled to its actual costs of administering the Triple Flip and the VLF Backfill.

The court noted that the Legislature had expressed an intent to more fairly apportion the counties' burden of collecting property tax revenue, and further noted that the counties' burden is a substantial one. The court stated that it is undisputed that the source of revenues to fund the Triple Flip and the VLF Swap is property tax revenue, and there is nothing to indicate that the Legislature intended to permanently exclude counties from recouping costs for collecting this property tax revenue. Therefore, the court concluded that counties are entitled to include the Triple Flip and the VLF Swap in the PTAF calculation.

The League has been informed that the cities in this case are weighing whether to appeal, but as yet no decision has been made. You may find a copy of the court's decision by going to www.cllaw.us and clicking on "Cases".

Register Now for the 2009 National Summit on Your City's Families

City leaders are invited to attend the 2009 National Summit on Your City's Families, Oct. 11-13, in Boston. Sponsored by the National League of Cities' (NLC) Institute for Youth, Education, and Families, this biennial summit is the nation's largest gathering of municipal leaders working to improve the lives of children, youth, and families.

Helping Children and Families in Tough Economic Times

As cities confront the worst recession and foreclosure crisis in generations, city officials across the nation are working to find creative solutions for ensuring the success of young people and financial security for their families. The summit's sessions, workshops, and site visits will focus on cutting-edge city innovations and strategies to help families cope with the economic crisis including:

- Family financial stability;
- School improvement/dropout prevention;
- Youth employment;
- Afterschool programming;
- Access to college;
- Youth violence prevention;
- Early literacy/school readiness;
- Youth civic engagement;
- Childhood obesity prevention;
- Strategies for reengaging disconnected youth; and
- Citywide "infrastructure" to sustain local initiatives.

Keynote Speakers

Attendees will hear keynote addresses from Boston Mayor Thomas M. Menino and William Strickland, president and CEO of Pittsburgh's Manchester Bidwell Corporation.

Currently serving his fourth term, Mayor Menino is the founding chair of NLC's Council on Youth, Education, and Families. During his tenure, Mayor Menino has spearheaded efforts that place Boston at the cutting edge of municipal innovation in areas ranging from school reform and youth violence prevention to family economic success and community wellness. As host of the 2009

Summit, Mayor Menino will share lessons from Boston's experience and his perspective on the future of city leadership for children, youth, and families.

William Strickland is a nationally-recognized social entrepreneur whose arts, education, and job training centers have served youth and adults in Pittsburgh's disadvantaged Manchester neighborhood since 1969. As President and CEO of Manchester Bidwell Corporation, Strickland has enabled thousands of students to work with visiting artists and jazz musicians, and has helped displaced steelworkers and underemployed residents develop skills relevant to Pittsburgh's emerging industries.

Early Registration

Early registration discounts are available until July 17. In addition, community teams of three or more people will be invited to participate in a special pre-conference session to strengthen citywide collaboration and advance local planning efforts. To learn more and register, visit www.nlc.org/iyef/yefsummit.aspx or contact Sharie Wood at (202) 626-3087 or wood@nlc.org with questions.
