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LEAGUE, CSAC, AND CSDA URGE THE STATE SENATE TO PASS SB 67 BY OCT. 15

637 Local Agencies, Totaling \$1.3 Billion, Awaiting Action

The failure of the Senate to pass SB 67 (Committee on Budget and Fiscal Review) has left hundreds of local governments in limbo. SB 67 contains critical clean-up language to the Proposition 1A property tax securitization provisions that will enable California Communities – the joint powers authority sponsored by the League and the California State Association of Counties (CSAC) – to move forward. *For more, see Page 2.*

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STATE DROPS APPEAL IN 2008 REDEVELOPMENT CASE, UPHOLDS RULING THAT \$350 MILLION STATE RAID OF REDEVELOPMENT FUNDS WAS UNCONSTITUTIONAL

CRA Moves Forward with Lawsuit to Fight \$2.05 Billion Taking in FY 2009-10 Budget

The State of California has dropped its appeal of a Sacramento Superior Court ruling that found the unconstitutional the provision in the FY 2008-09 state budget that seized \$350 million in redevelopment funds. The state's abandonment of the appeal means the Superior Court ruling in favor of the California Redevelopment Association (RDA) is final and binding. *For more, see Page 3.*

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**TAX COMMISSION FINISHES WORK, RELEASES
REPORT OUTLINING REFORM RECOMMENDATIONS**

This week, the California Commission on the 21st Century Economy (COTCE) issued its much anticipated report on reform of the state taxation system. Spending nearly a year on the process, COTCE held 10 public meetings before releasing its report which includes a set of recommendations supported by nine of the commission's 14 members. The full report is online at www.cotce.ca.gov/documents/reports. *For more, see Page 3.*

With time of the essence, the League, CSAC, and the California Special Districts Association (CSDA) have been working together to urge the state Senate to reconvene to complete business that should have been addressed prior to the official end of the 2009 legislative session on Sept. 12.

The associations have sent several joint letters to Senate leadership in recent weeks which have been posted on the League's Web site.

- Sept. 15, 2009 www.cacities.org/resource_files/28360.SenateLetter91509.pdf
- Sept. 23, 2009 www.cacities.org/resource_files/28361.SenateLetter92309.pdf

To date, 637 local agencies have enrolled in California Communities' the program to securitize the state's repayment obligation, comprised of:

- 51 counties;
- 260 cities/towns; and
- 326 special districts/other.

The estimated enrollment dollars for cities and counties totals \$1.314 billion. This amount does not include special district volume which is still being estimated. Please see information on the California Communities Web site about the Prop. 1A Securitization Program.

<https://www.psacommunities.org/fs/apps/?app=22>

All that is necessary for SB 67 to pass is for the Senate to reconvene, take up the matter under reconsideration, pass it with 27 votes and send it to Gov. Arnold Schwarzenegger. SB 67 obtained 26 votes the last time it was voted on prior to the close of the session with all 25 Democrats and Sen. Abel Maldonado (R-Santa Maria) voting in support. (This number was just one shy of what was needed to pass.) The remaining Senate Republicans withheld all votes on measures requiring a two-thirds vote over an unrelated dispute with Senate President Pro Tem Darrell Steinberg (D-Sacramento).

The news media recently reported that the Senate may return to conduct business Oct. 13-15, but there has been no official announcement. It has also been reported that some legislators are currently traveling abroad.

Take Action

City officials are encouraged to urge their senators to return to complete their unfinished business, including the passage of SB 67 prior to Oct. 15. The League, CSAC and CSDA have prepared a fact sheet/talking points with information about how the failure of the Senate to pass SB 67 by Oct. 15 would be devastating to both state and local governments.

This document, *15 Days to Keep a Commitment*, has been posted on the League's Web site, www.cacities.org/resource_files/28362.DaystoCommitment100109.pdf

When Speaking With Senate Democrats and Republican Sen. Abel Maldonado:

- Please thank Democratic senators and Sen. Abel Maldonado for their prior vote in support of SB 67. Encourage them to vote for SB 67 again when it comes up for reconsideration.

For Remaining Senate Republican Members

- Emphasize the importance to your city of securitizing the state's repayment obligation pursuant to Prop. 1A.
- Explain some of the additional impacts that the Prop. 1A borrowing of 8 percent of local property taxes will mean for local services and programs, absent securitization.
- Ask your senator if he/she will vote for SB 67 when it comes up for a vote under reconsideration. **Ask for a commitment!**

The League will keep city officials informed of any additional developments on this important topic.

'Lawsuit' Continued from Page 1...

Though this action now closes the first case, *CRA v. Genest*, CRA will have to file a second lawsuit against the state challenging its \$2.05 billion redevelopment raid included in the FY 2009-10 state budget passed in July 2009. CRA contends the second state budget raid is no different than the first raid in 2008 that was ruled unconstitutional. CRA expects to file this subsequent suit in the next few weeks.

"While we're pleased that the state dropped the appeal of its FY 2008-09 raid, we must head right back to court to block an even more drastic raid this year. Not only are these raids illegal, but they're terrible public policy. Given our shaky economy, you'd expect lawmakers to be doing everything possible to support programs like redevelopment that put people to work and generate tax revenue," said CRA Executive Director John Shirey.

The FY 2009-10 budget passed in September 2008 included a provision to take \$350 million in redevelopment funding to use to fund state obligations. This action was a clear violation of Article XVI, Section 16 of the California Constitution which states that redevelopment tax increment funds can only be used for specified redevelopment activities, specifically *"to finance or refinance ... the redevelopment project."*

CRA in December 2008 and in April 2009, Sacramento Superior Court Judge Lloyd Connelly ruled in favor of redevelopment agencies and invalidated the 2008 legislation finding that it *"violates the intent of section 16 [of the State Constitution], to allocate the tax increment to the financing of redevelopment projects."* The State of California originally filed papers to appeal the decision but dropped that appeal last week.

Despite the clear unconstitutionality and the Superior Court ruling, just three months after Judge Connelly's ruling, in July 2009, legislators and the Gov. Arnold Schwarzenegger approved budget bill ABX4-26. This bill authorizes a \$2.05 billion raid of local redevelopment funds, including \$1.7 billion in FY 2009-10 and another \$350 million in FY 2010-11.

While legislative staff and lawyers tinkered with the wording of the 2009 legislation in an attempt to get around the state Constitution and Superior Court Ruling, the raid in the FY 2009-10 raid is also unconstitutional. It is still an attempt to redirect redevelopment funds to pay off the State's obligations – clearly a violation of the Constitution.

The second lawsuit will be filed shortly, also in Sacramento Superior Court. Because payments from redevelopment agencies are due in May 2010, CRA will seek a Superior Court ruling before that time.

Although CRA anticipates that the 2009 raids will be found unconstitutional, this irresponsible action by legislators and Governor forces redevelopment agencies to set aside funding now and put necessary projects on hold in case the ruling goes against them. That unavoidably delays economic development and job creation, directly harming local communities and stalling economic recovery.

'Tax Commission' Continued from Page 1...

In brief, COTC made the following recommendations:

1. Eliminates the state corporation tax and the franchise minimum tax.
2. Cuts and restructures the personal income tax (PIT) across all income levels, especially upper tiers.
 - a. Moves from six tax rate categories to two.
 - b. Eliminates PIT deductions except for charitable contributions, mortgage interest and property taxes. Categories no longer deductible would include medicines,

- retirement account interest, and medical and retirement benefits. Tax credits including those for child care and dependent care tax credits eliminated.
3. Eliminates the state general purpose sales and use tax (SUT) rate.
 - a. Leaves all rates allocated to locals in place including the Bradley Burns, Prop. 172, county health and welfare rate, and local voter approved add-on rates.
 - b. Leaves the state SUT on gasoline and diesel fuels that is allocated to Prop. 42 state and local transportation programs and the public transportation account.
 4. Establishes a new Business Net Receipts Tax (BNRT). This is a kind of subtraction based value added tax that would apply to a broad base of economic activity including goods and services such as food, entertainment, medical, dental, utilities, legal, real estate and housing. The report recommends that government and nonprofit activities be exempted from paying the BNRT. A reduced BNRT rate would apply to financial services.
 5. Establishes a new Rainy Day Reserve Fund.

Higher Sales and Use Tax Administration Costs

The COTCE proposes to eliminate the 5 percent general purpose state sales and use tax rate, (currently 6 percent until April 2011) and leave local rates and the state rate applied to gasoline and diesel fuels.

Total state and local sales and use tax collections would fall by over 55 percent. Assuming that Board of Equalization (BOE) administration costs do not change significantly, and assuming these costs would be re-spread to the remaining revenue allocations, BOE administrative charges to local agencies would more than double.

The Legislature's Concern for Sales & Use Tax Will Decline

The structural problems with California sales and use tax have been well documented for many years and indeed were part of the discussion of the COTCE. Although California has the highest states and use tax in the nation, the base to which it applies is narrower than any other state.

Because of its narrow application in California, taxable sales continue to fall behind population and inflation growth. COTCE recommendations would leave the existing sales and use tax in place with no reform. However, it would withdraw the state as a recipient of any sales and use tax revenues except for state transportation program allocations from the Prop. 42 sales tax on gasoline (about \$600 million per year). Sales and use taxes going to the state general fund—currently about \$33 billion—would be phased out.

With so much less at stake in the sales and use tax, the Legislature will have less interest in broadening the sales and use tax base to make it more sustainable, less interest in ensuring that the costs and efficiency of tax administration is kept reasonable, and less concern about the revenue impacts of the myriad of requests for tax exemptions in law that it receives each year.

What Lies Ahead

The Governor is expected to call a special session of the Legislature to examine the COTCE recommendations. With such a potential major change in tax policy, the proposal has a number of policy, legal and technical problems and uncertainties. The COTCE proposal is unlikely to survive in its current form yet it is likely to be the basis for continued discussions and efforts at reform of the states troubled fiscal structure.

The League will continue to analyze the potential impacts of this proposal on cities, participate in and monitor legislative discussions, and alert cities of any important developments.

RTAC Report Recommends ARB Base Emission Reduction

The Regional Targets Advisory Committee (RTAC), the committee created by SB 375 to advise the California Air Resources Board (ARB) how to set regional green house gas (GhG) emission targets, has released its report in time to meet its Sept. 30 statutory deadline.

The report recommends that ARB set a statewide per capita goal based on a 2005 base year. The committee believes that the per capita metric will allow fast and slow growing regions alike to reach a proportional amount of emissions reduction. RTAC, in setting 2005 as the base year, would allow regions that have adopted policies over the last four years to take credit for their actions.

Additional reports worth noting in the report include:

- The per capita metric to be set by ARB will be done through a process that involves extensive collaboration with the Metropolitan Planning Organizations (MPOs).
- RTAC is also recommending a process for regions to seek a variance (of sorts) on the statewide metric if conditions suggest it is necessary.
- Although RTAC expects that all MPOs will use their transportation demand models to show some of the ways that GhG's will be used, the committee is also recommending the development of a non-exclusive list of accepted best management practices that regions can use to show how they will meet the targets.

ARB has yet to set the actual targets. It will consider RTAC's report at its November meeting. The draft targets are due to the regions by June 30, 2010 and will be made final by Sept. 30, 2010.

The League will prepare and release a summary of RTAC's Report. City officials who are interested in reading the full report can find it on ARB's Web site at www.arb.ca.gov/cc/sb375/rtac/report/report.htm.

Register Now for to Attend on of the League's 2009 Legislative Briefings

For the first time, the League will be holding its annual November legislative briefings in two formats: in person in both Northern and Southern California as usual and via the Web. The live webinar will allow attendees to listen to the legislative briefing information while limiting travel costs.

The legislative briefings provide an overview of upcoming legislative issues and information regarding new laws for 2010 and the impact on cities. The goal is to help city officials stay up to date and in compliance with the law.

Northern California meeting:

Tuesday, Nov. 17 from 9 a.m. – 12 p.m.
League Office,
1400 K Street, Sacramento

Southern California meeting:

Wednesday, Nov. 18 from 9 a.m. – 12 p.m.
Paradise Pier Hotel
1717 S. Disneyland Drive, Anaheim

Webinar:

Tuesday, Nov. 17 from 2 – 3 p.m.

Session Topics include:

- Surviving the 2009 state budget crisis;
- Climate change, SB 375 implementation, and water;
- Keeping track of state agency consolidation;
- AB 155/SB 88 (Municipal Bankruptcy);
- Pension reform efforts, workers' comp., and elections;
- Changes to state corrections policies;
- Efforts to reform state governance and protect local revenue; and
- Other legislation of interest to city officials.

Registration is \$50. The deadline to register is Oct. 30 and can be done online through the League's Web site at www.cacities.org/events.

The event announcement has additional information about the legislative briefing. It has been posted on the League's Web site.
www.cacities.org/resource_files/28353.2009%20Legislative%20Briefings.pdf.

Rural Cities Should Register Now for Energy Efficiency Block Grant Workshops

The Regional Council of Rural Counties (RCRC) will be hosting workshops for rural counties and any cities within those counties on Energy Efficiency Block Grants. The Energy Efficiency and Conservation Block Grants (EECBG) are being offered through the California Energy Commission and funded by the American Recovery and Reinvestment Act of 2009 (ARRA).

The EECBG are reserved for small cities and counties in California. More information on the EECBG can be found at: www.energy.ca.gov/recovery/blockgrant.html

The purpose of these workshops is to inform city and county officials of the amounts that are available for projects, the type of projects that are eligible for these funds and the application process and other procedures that must be followed to access and use these funds.

The workshops will be presented by staff from the California Energy Commission, private energy contractors and invited participation by the local utility. Please contact RCRC staff via email (rcrc@rcrcnet.org) to register for any one of the following workshops.

Time	Location
Monday, Oct. 5 9:30 a.m. – 1 p.m.	Redding Shasta County Board of Supervisors Chambers 1450 Court Street, Suite 263 Redding, CA
Wednesday, Oct. 7 9:30 a.m. – 1 p.m.	Placerville El Dorado County Board of Supervisors Chambers 330 Fair Lane Placerville, CA
Wednesday, Oct. 14 12 – 3:30 p.m.	Sonora Tuolumne County Board of Supervisors Chambers 2 Green Street Sonora, CA
Monday, Oct. 19 9:30 a.m. – 1 p.m.	Sacramento Regional Council of Rural Counties Board Room 1215 K Street, Suite 1650 Sacramento, CA

More on ARRA Section 1512 Reporting Requirements

On Sept. 28, Gov. Arnold Schwarzenegger sent a letter to all grant recipients regarding the upcoming reporting requirement. His letter reminded grant recipients that if they are receiving federal funds passed through state agencies, then they must report to that agency:

“In communicating with your state agency, ensure that you know what information you are required to report, when it is needed and in what format the information must be provided. The California Recovery Task Force is collecting data from state departments

and its sub-recipients into one system, which will then be submitted to the federal government.

“Depending on how many ARRA funding awards you have received, you may have obligations to report some funds directly to the federal government and some to the state. I encourage you to register as necessary and make sure you meet all federal reporting requirements.”

“Pay particular attention when reporting the number of jobs created and saved. Congress requires the reporting of the number of *direct* jobs created and saved, and is looking for an auditable, verifiable number. While federal ARRA job projections include the number of jobs created and saved *indirectly*, federal ARRA reporting does not include such information.”

For more information on ARRA, see the League’s City Funding Book at www.cacities.org/federalstimulus.

For more information on submitting reports to the state, please contact Jennifer Grutzius with the California Recovery Task Force at (916) 324-7728 or via email at jennifer.grutzius@recovery.ca.gov.

ARRA Q&A’s

On Sept. 24, the Office of Management and Budget (OMB) posted additional ARRA Section 1512 recipient reporting questions and answers on its Web site. The new Q&As are designated with an asterisk and can be found at www.whitehouse.gov/omb/recovery_fags.

Housing

The Department of Housing and Urban Development (HUD) has developed a consolidated list of program-specific support information, mainly sample reporting templates, for Section 1512 recipient reporting requirements. The list can be accessed at <http://portal.hud.gov/portal/page/portal/RECOVERY/Reporting>

HUD also wants agencies to know that they must submit reports on compliance with the National Environmental Policy Act (NEPA). In some cases, grantees will have to submit their NEPA information directly to a HUD-created system known as the Recovery Act Management and Performance System (RAMPS). The system is available at the HUD Recovery portal at www.hud.gov/recovery/reporting

HUD Recovery Act recipients in most programs will also need to access RAMPS to submit NEPA compliance reports. HUD program staffs are organizing this registration process, and guidance on this requirement is being shared with grantees on a program by program basis.

Recipients can obtain further information at www.hud.gov/recovery/reporting. Please see the Section 1609 Overview page.

New Recovery.gov Web site

The Obama Administration this week unveiled a revised www.recovery.gov Web site that includes a feature to search for projects in a specific area by ZIP Code.

The site, created by the Recovery Accountability and Transparency Board, was revamped through the use of \$9.5 million in stimulus funds. It provides easier-to-use tools, such as a ZIP Code search that shows stimulus projects in specific communities. The government also has set up a toll-free hot line (1-877-FWA-DESK) for reporting fraud, waste and abuse.

Critics complain, however, that the site does not include complete data on recipients’ of stimulus money, and users face significant hurdles to accessing the information that is available.

The government is set to release comprehensive data about recipient contracts on Oct. 15 and will post grant and loan information Oct. 30. The board on Monday also unveiled an account on Twitter (<http://twitter.com/RecoveryDotGov>) and a YouTube video featuring Chairman Earl Devaney speaking directly to the public (www.youtube.com/watch?v=In1DWKkJZaQ).

League Releases Final Report on 2009 Annual Conference Resolutions

Four resolutions were presented for consideration by the General Assembly during the 2009 Annual Conference which was held in San Jose, Sept. 16-18. This week, the League released its 2009 Resolutions Final Report. Sent to all mayors, city managers and clerks in non-manager cities, the report has also been posted on the League's Web site at www.cacities.org/resolutions.

Annual Conference Resolution Results

- **Resolution 1:** Resolution Regarding Social Host Liability – **Approved**
- **Resolution 2:** Resolution Regarding Divesting from Banks and Others That fail to Cooperate With Foreclosure Prevention Efforts – **Withdrawn by Sponsor**
- **Resolution 3:** Petitioned Resolution: Resolution Concerning Additional Constitutional Protection of Local Government Revenue – **Approved**
- **Resolution 4:** Resolution in Opposition to Rule Modifications to Accommodate Southern California Edison Company's Initiative to Install Above-Ground Equipment. – **Approved**

Background

Each year at the League's annual conference voting delegates representing are asked to consider resolutions which shape League policy. The resolution process is one mechanism through which issues facing California cities are debated and a policy direction for the organization is established. Resolutions for consideration at the annual conference can be approved by the board or petitioned by a resolutions delegate.
