Analysis, Commentary and Updates on Legislative and Policy Issues that Affect California Cities

PRIORITY FOCUS

LEAGUE OF CALIFORNIA CITIES

IN THIS ISSUE:

January 9, 2009
Issue #1-2009

PRESIDENT-ELECT OBAMA DISCLOSES DETAILS ON HIS ECONOMIC STIMULUS PLAN

California Prepares For Influx of Federal Funding

This week President-Elect Barack Obama began releasing more details for his plans to jumpstart the nation's economy. The "American Recovery and Reinvestment Plan" is expected to invest in health care, energy, infrastructure, and education, as well as save or create over 3 million jobs. It will focus on responsibility, accountability, and transparency. You can read the details of Obama's plan at http://change.gov/agenda/economy_agenda/. *For more, see Page 2.*

●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●

SEN. FEINSTEIN INTRODUCES FISCAL RELIEF BILL FOR LOCAL GOVERNMENTS

Sen. Dianne Feinstein (D-California) has introduced S. 116, a bill to require the Secretary of the Treasury to allocate $10,000,000,000 of Troubled Asset Relief Program (TARP) funds to local governments that have suffered significant losses due to highly-rated investments in failed financial institutions. *For more, see Page 3.*

●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●

STATE BUDGET SOLUTION NOWHERE IN SIGHT

A solution to the state's $41.6 billion, 18-month budget deficit seemed farther away this week, when Gov. Arnold Schwarzenegger vetoed the entire package of budget-balancing bills passed by the Legislature in December. That package of 12 majority vote-only bills aimed to cut state expenses and raise revenues to achieve about $18.1 billion current fiscal year General Fund savings, split roughly into $9.3 billion in new revenues and $8.7 billion in cuts. *For more, see Page 3.*

'Transportation' Continued from Page 1…

While the President-Elect has not yet publicly announced the total amount of his proposed plans, his office has indicated it will be between $675 billion and $800 billion. Early in the week, Obama met with Congressional leadership and encouraged them to act quickly to pass a plan. He also asked that no earmarks be included in the bill. Acknowledging the extraordinary amount of money needed to get the economy on track, he indicated an oversight board would be created to identify and solve problems early in the process in order to make sure the money is not misspent.

Alternative Approaches Discussed for Transportation Funding

Even before details of the plan began to be released, California began preparing for a sudden influx of money. Cities across the state have been working with the League, California Department of Transportation (Caltrans) and other government agencies in their regions to compile information on projects that are "shovel ready" and for which contracts can be quickly executed.

League staff is participating in meetings with state agencies and other interested parties to review current state law in order to ensure that the state is able to allocate and distribute any funds received in a timely manner. Current law sometimes requires that funds be routed through several other funds and agencies before it actually is received by the agency that will spend the funds. In some cases, a competitive process is required before funds are allocated.

An example of a situation where state law may need to be revised is in the area of transportation. In mid-December, Caltrans convened a working group to begin preparing for the implementation of a federal economic stimulus plan. The working group has been discussing the best manner to get transportation dollars to the agencies that will be putting the dollars to work. The following two proposals have emerged from the discussions.

Proposal A: A Regional Approach. The California Association of Councils of Governments (CALCOG) supports allocating the funds using the existing Surface Transportation Program (STP) formula. Under this proposal, the regional transportation agencies would receive 62.5 percent of the funds, and Caltrans would receive the remaining 37.5 percent. CALCOG maintains that the existing program works, and that is the best system to get the funds committed quickly. Some cities and counties are concerned with this approach because there would not be a direct or committed allocation to cities and counties.

Proposal B: Direct Allocation to Cities and Counties. In the second proposal, funds will be split evenly among 1) Caltrans, 2) regional agencies, and 3) cities and counties. In order to simplify the process, the California Transportation Commission (CTC) would be given the authority to distribute the funds to the regions, cities, and counties, as well as the responsibility to report to the federal Department of Transportation what projects will be funded. It has been suggested that under this plan, cities and counties could "loan" their federal economic stimulus money to Caltrans. Caltrans would use the funds immediately to backfill projects that are in jeopardy of being shut down mid-project due to the fiscal conditions in California. Cities and counties would then be paid back with other Prop. 1B funds once the state is able to sell bonds again. The funds would be an augmentation to Prop. 1B, and allocated using the same formula as Prop. 1B.

The League and California State Association of Counties (CSAC) have been discussing both proposals with public works directors, and Proposal B has some benefits for cities. First, if cities agreed to loan their economic stimulus funds to the state and receive an augmentation to their Prop. 1B dollars in return, the funds would be state dollars and would not need to meet federal requirements, including the National Environmental Quality Act (NEPA). Also, the definition of uses under Prop. 1B is broader than the definition expected in the Federal package. Second, the funds would not have to be contracted in the short timeframes required by the federal package. Third, cities would know in advance the amount of funds they will receive and can prepare for their use. Finally, Caltrans would not default on their currently contracted projects, saving the transportation community up to $350 million in penalties.

These proposals will continue to be developed as more specific details for the federal package become known. The working group convened by Caltrans will also continue to meet to reach a final consensus on what is best for California. If your city has any comments or questions on the proposals above, please email Jennifer Whiting at jwhiting@cacities.org. Updates to the negotiations will also be included in future issues of *Priority Focus*.

'TARP Legislation' Continued from Page 1…

The League supports the measure, which has been referred to the Senate Committee on Banking, Housing, and Urban Affairs.

The League will provide additional information as this bill moves through the process.

'Budget' Continued from Page 1…

The Governor and budget experts agree that the deficit increases with each day that passes without a budget solution. The State Controller has cautioned that without a budget solution, the state will run out of money to pay its bills in February.

Governor Explains Veto. In a letter this week to Democratic legislative leaders and in a subsequent press conference, the Governor explained that he had vetoed the package of bills because he concluded they did not go far enough in cutting expenses, and would punish taxpayers by establishing a new withholding requirement for independent contractors. He questioned the constitutionality of legislation that would give the Department of Finance the authority to raise taxes administratively, without legislative approval, based on annual revenue projections. He also was concerned with legislation that would increase the price of gasoline 13 cents above current levels "at a time when hard-working Californians are already suffering."

The Governor also objected that the package fell short of reforms that he believes are essential to stimulate the state's sluggish economy. These include providing relief from environmental and labor laws for infrastructure projects, and granting the state greater authority to use design-build and public-private partnership agreements to build infrastructure. He also faulted the Legislature for failing to put forward bills that will help families facing foreclosure.

Administration Posts Early Release of 2009-10 Budget Proposal

Gov. Schwarzenegger's Department of Finance rolled out the Administration's own proposal to solve the state's budget deficit on New Year's Eve.

The proposal would close the deficits in the current 2008-09 fiscal year and the budget year that starts on July 1, 2009. It would achieve this, and create a $2.1 billion reserve by cutting $17.4 billion in services over the next 18 months and increasing revenues by $14.3 billion. Additionally, the proposal assumes that the state can both increase lottery revenues by $5 billion and borrow that money; and that the state will be able to ease its fiscal problems by issuing $4.6 billion in revenue anticipation warrants (RAWs), which will be repaid in the 2010-11 fiscal year. (View a copy of the budget proposal on the Department of Finance Web site. The Legislative Analyst has produced an initial review of the budget, available at www.lao.ca.gov.)

The plan includes many concepts put forward in earlier budget proposals made by the Governor or the Legislature. League staff are still studying the proposal, but there does not appear to be any significant impacts on cities, including no raids or borrowing from property taxes (including redevelopment) or transportation sales tax revenues (Prop. 42/1A). (See also "Governor's Budget Proposal: Summary of Actions of Interest or Concern to Cities" on page 4.)

The Governor followed up his veto, however, by calling together the "Big Four" (Democratic and Republican Senate and Assembly Leaders) to meet with him today in a new effort to negotiate a budget solution.

Court of Appeal Declines to Intervene in Democratic Budget Proposal. Also this week, the Court of Appeal denied a petition filed by the Howard Jarvis Taxpayers Association and the

Republican Members of the Legislature, requesting that budget bills passed by legislative Democrats in December on a simple-majority basis be returned to the Legislature and made subject to a two-thirds vote. The court said that unless and until the bills were signed, there was no reason to intercede in the legislative process.

Budget Uncertainty Hurts Cities - and the State

In the absence of a final state budget plan, the biggest impact on cities at this time is the ongoing uncertainty as to how the state will ultimately solve its deficit problems. City officials are already struggling to make the local cuts necessary to live within their own declining revenues. The uncertainty as to whether the state will cut or borrow local funds to balance the state budget is an added burden.

Finally, the state's shaky credit worthiness has a spillover effect on cities, who find that their own ability to sell locally-approved bonds may be impacted by the concern of bond houses as to the state's credit-worthiness.

Governor’s Budget Proposal: Summary of Items of Interest or Concern to Cities

The following is a summary of budget actions of interest to cities that were included in the Administration’s 18-month budget proposal, released on December 31, 2008. City officials have seen most of these concepts in prior budget-balancing proposals released over the past few months.

- **No Borrowing Local Funds.** The Governor does not propose to borrow local property taxes or Proposition 42 (sales tax on gas) revenues.
- **Redevelopment Funds.** No additional take of redevelopment revenue is proposed.
- **Prop. 1B (Transportation) and Prop. 1C (Housing) Allocation.** The proposal allocates $700 million in remaining Prop.1B Local Street and Road funds, as well as an additional $487 million in Prop. 1C housing funds for infill, park and transit-oriented development projects.
- **Federal Funds.** Allocation of $140 million in federal foreclosure assistance funds local agencies by the Department of Housing and Community Development.
- **Public Safety.** Retention of the Governor's previously proposed cuts to local public safety programs, which include shifting funding for COPS and Booking Fees to Vehicle License Fees, and eliminating funding to several specialized public safety grant programs.
- **Prison Costs.** No changes are made to the Governor's previous proposals designed to save state prison costs which include enhanced sentencing credit programs for state inmates and eliminating state parole supervision for specified offenders with non-violent histories.
- **State Mandate Reimbursements.** $131 million is proposed to be allocated to reimburse current mandate claims, but the Governor proposes to defer for one year a $91 million payment for previously-owed mandate claims.
- **Transit.** $153 million is proposed to be cut from state transit assistance funds in the 2008-09 fiscal year and $306 million in 2009-10.
- **Property Tax Deferrals.** New tax deferrals under the existing Senior Citizens Property Tax Deferral Program are proposed to be suspended on Feb. 1, 2009.
- **SB 375 Implementation.** An additional $682,000 is proposed to be allocated to the Air Resources Board for work in developing travel demand models associated with regional planning activities required by SB 375 (Steinberg).
- **Waste Tire Recycling Program.** An additional $8.6 million is proposed to be allocated for the Waste Tire Recycling Management Program for various loans, local assistance grants and public outreach.
- **Emergency Response.** $17.1 million is proposed to be allocated for state emergency response activities to be funded through a 2.8 percent surcharge on all residential and commercial insurance policies.
- **Public Safety Interoperability.** $4.5 million in federal funds is designated for public safety interoperability grants through the California Emergency Management Agency.

California Water Environment Association Offers Training on SSO-WDR

The California Water Environment Association (CWEA) continues to fulfill its Memo of Agreement with the State Water Resources Board, by offering training on the Sanitary Sewer Overflows-Water Discharge Requirements (SSO-WDR). Training is planned through June 2009 on four compliance topics in 13 cities throughout the state. This training continues to be critical, especially as the State Water Board begins to move into the enforcement phase of the SSO-WDR.

The next three training workshops are scheduled as follows:

Jan. 13, 2009, 8 a.m. – 12 p.m. - Electronic Reporting Requirements & Tips
City of Fresno
5607 W. Jensen Ave.
(559) 621-5190

Feb. 5, 2009 - Sewer System Management Plan (SSMP) Requirement 1
City of Santa Rosa
Laguna Treatment Plant
4300 Llano Rd.
Santa Rosa, CA 95407

Feb. 10, 2009 - SSMP 4 M's (Map, Maintain, Measure & Modify)
Sacramento Regional CSD
8510 Laguna Station Rd.
Elk Grove, CA 95758

For more information, including online registration, please visit the CWEA Web site at www.cwea.org/conferences.

New Mayors and Council Members Academy to Take Place this Month

Newly-elected mayors and council members will have an opportunity to learn critically important "rules of the road" when they convene Jan. 21-23 in Sacramento for the League of California Cities' New Mayors and Council Members Academy. The 2009 Academy features a range of educational sessions designed to address the priorities and requirements newly-elected officials face as they assume office. Among the topics to be covered are 'Your Legal Powers and Obligations,' 'Effective Advocacy and Key City Issues' and 'AB 1234: Ethics Training,' to name just a few.

Participants have the opportunity to network with other newly elected officials and League staff. They will be introduced to their League regional division members and staff representatives and discover how to build a local network. They will also have the opportunity to network with their own and other state legislators at a special Legislative Reception.

For more information on the Mayors and Council Members Academy, please contact Brian Sanders at bsanders@cacities.org, or visit the League Web site at www.cacities.org/events.

City Advocate Weekly Replaces *Priority Focus* in January

The League is pleased to announce a new name for its weekly newsletter: *City Advocate Weekly*. With a tag line of "Legislation and Policy Affecting California Cities," the renamed publication will also feature a redesigned masthead. Stories will continue to focus on key legislation affecting cities and other items of interest to city officials.

The League anticipates launching *City Advocate Weekly* sometime in January. *Priority Focus* will remain in place until the rename is official and subscribers will automatically receive *City Advocate Weekly* without having to re-subscribe.

League Offices Temporarily Relocated
Mailing Address, Email Addresses and Phone Numbers Unchanged

City officials and others who visit the League's Sacramento offices over the next 8 - 10 months will find the League staff and most building tenants have temporarily relocated to offices at 770 L Street while some long delayed work is done to replace the obsolete HVAC, plumbing and other systems in the building. All mail should continue to go to our permanent address of 1400 K Street, Sacramento, CA 95814 and all phone number and email addresses are unchanged.

Find a Bill, Legislators, Leg Committee, or Ask League Leg Staff

Visit (and bookmark!) the League's Legislative Resources Web page (www.cacities.org/legresources). You'll find a roster and contact information for the League's legislative staff; the online Bill Search program, background materials on lobbying your legislators, and more.
