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CALIFORNIA REDEVELOPMENT ASSOCIATION PREVAILS IN LAWSUIT BLOCKING UNCONSTITUTIONAL STATE RAIDS OF REDEVELOPMENT FUNDS

The California Redevelopment Association (CRA) and cities throughout the state received good news Thursday, April 30 when Sacramento Superior Court Judge Lloyd Connelly ruled unconstitutional a provision in the FY 2008-09 budget signed in September 2008 which would have required redevelopment agencies statewide to transfer $350 million to be used to fund state obligations. *For more, see Page 2.*

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SENATE BILL ALTERING REDEVELOPMENT LAW REMAINS OF CONCERN TO CITIES

For the last month the California Redevelopment Association (CRA) and the League have been involved in an effort to negotiate and resolve issues associated with SB 93 (Kehoe), a bill which contains provisions which would expose local redevelopment projects across California to unnecessary costs, delays and litigation. Sen. Christine Kehoe (D-San Diego) originally introduced the legislation in response to what she viewed as an inappropriate use of funds to construct public facilities outside of a designated redevelopment project area in San Diego.
For more, see Page 2.

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BUDGET ACTION DAY SCHEDULED FOR WEDNESDAY, JUNE 3

The League is holding a special event in Sacramento on June 3 following the release of the May Budget Revise to bring city officials to lobby their legislators and administration officials on possible implications of the May 19 special election results. The timing of this session is designed to allow many city officials to come in just for the day. *For more, see Page 3.*

'CRA' Continued from Page 1…

The suit before the court was brought by the CRA and the redevelopment agencies of the Cities of Moreno Valley and Madera which sought to block parts of budget trailer bill AB 1389. AB 1389 was approved in September 2008 as part of the FY 2008-09 budget package.

Certain sections of the bill authorized a one-time raid of $350 million in redevelopment funds. Judge Connelly's ruling in favor of the petitioners invalidates that aspect of AB 1389 and prohibits the state from forcing county auditors to divert $350 million in redevelopment funds to finance state obligations.

The lawsuit argued that state raids of redevelopment funds to balance the state's budget are unconstitutional, violating Article XVI, Section 16 of the California Constitution which states that redevelopment funds can only be used to finance redevelopment project activities.

Judge Connelly agreed, writing in his ruling Thursday that AB 1389, "…in its general and ordinary operation, inevitably conflicts with and violates the terms and intent of Section 16, to allocate tax increment revenues to the financing of redevelopment projects."

Attorneys continue to review the case for additional implications. It is not yet known whether the state will appeal this ruling.

'SB 93' Continued from Page 1…

Although CRA and the League agree that current law affecting the issue of expenditures outside of project areas should be tightened and have offered amendments which address this issue directly, those amendments have yet to be accepted. Moreover, significant concerns remain with provisions of the bill that create undue obstacles affecting development *within* project areas.

The League and CRA appreciate that during the negotiations, Sen. Kehoe has held the bill on the Senate Floor. Out of respect for these good-faith discussions, the League has also refrained from issuing opposition floor alerts. While the bill was amended on Wednesday, April 28, numerous significant issues remain. The League and CRA appreciates that Sen. Kehoe has expressed interest in continuing to work on the issues.

Remaining Issues

The following is what was sent to the Senator's office highlighting remaining issues:

In its current form, SB 93 would make the following major changes to the use of redevelopment funds to finance publicly owned facilities:

(1) The findings required to be made in connection with facilities both inside and outside the redevelopment project area would be subject to judicial challenge. These findings are very subjective (e.g., "no other reasonable means of financing" the facilities) and inherently difficult to prove, requiring in some cases the proof of a negative. This change would lead to increased litigation and cause delay and increased costs for public projects that will leverage private investment and create jobs.

(2) The provision of housing for persons of low and moderate income would be eliminated as an alternative to a finding that the public facilities would assist in the elimination of blight. This could prohibit agencies from funding public facilities, such as flood control improvements or a community center that are needed for an affordable housing project.

(3) For public facilities located outside a redevelopment project area, the agency would need to undertake costly, duplicative and time-consuming surveys of blighting conditions in order to prove that significant blight remains in the project area. Under current law, blight studies must be performed before the redevelopment plan is adopted. Once the redevelopment plan is adopted, the project area is conclusively deemed to be a blighted

area. (Health & Safety Code §33368.) Additional blight studies are presently not required unless certain redevelopment plan amendments are proposed which would enlarge the project area or extend the time limits on the redevelopment plan. The requirement to perform additional blight surveys will lead to litigation, delays, and increased costs.

(4) Under current law, redevelopment plans adopted prior to the effective date of the legislation creating Section 33445 (Oct. 1, 1976) do not have to show that the public facilities to be financed from redevelopment funds that were provided for in the redevelopment plan. SB 93 would eliminate this exemption. This would trigger the need to amend redevelopment plans adopted before this requirement was included in the law, again creating costly delays of important public projects.

(5) SB 93 contains no grandfather clause to cover project commitments that might be made prior to the new law's effective date. It could adversely affect the ability of redevelopment agencies to comply with existing contractual obligations made to developers and other public agencies.

The amendments CRA previously suggested to the bill would address all of these concerns while putting in place significant increased restrictions on the expenditure of funds for public facilities outside project areas.

Next Steps

Cities with redevelopment agencies are encouraged to review the most recent version of SB 93 and identify potential negative impacts. The League and CRA will continue to work with the Senator's office in an effort to resolve outstanding issues. June 5 is the Senate deadline for moving bills off the floor, so there is still time to continue working towards a positive resolution. If those good-faith efforts do not produce satisfactory amendments, the League will have no other option but to request that all cities oppose the legislation with great vigor.

To read a copy of SB 93 in its most recent amended form log on to www.cacities.org/billsearch and entering "SB 93" into the search field.

'B.A.D.' Continued from Page 1…

With California's fiscal crisis, budget negotiations and testimonies are going to be extremely important. The budget will likely include a combination of significant cuts and revenue-generating solutions, and the May Revise will set the tone for the coming weeks of budget negotiations. California cities need to join forces to respond to any relevant May Revise proposals to ensure cities' needs are heard and understood in the Capitol.

Schedule of Events

10 – 11:15 a.m., May Revise Budget Briefing
Citizen Hotel, Metropolitan Terrace, Sacramento, CA

11:15 a.m. – 3:30 p.m., Time for Scheduling Lunch and Lobbying Appointments with Legislators

R.S.V.P.

Please R.S.V.P to League Staff Meghan McKelvey by Wednesday, May 18, 2009 at mmckelvey@cacities.org or (916) 658-8253.

District Budget Meetings

City officials who are unable to make the trip to Sacramento on June 3 are encouraged to contact their League public affairs manager to schedule a district meeting with their legislator.

Oppose Bill That Limits Local Authority to Seek Reimbursement for Emergency Response Expenses

The League urges cities to oppose AB 1004 (Portantino), a bill which would infringe on local authority to levy fees or seek reimbursement for emergency response costs unless that incident is clearly the fault of a non-resident of that local jurisdiction. In addition, AB 1004 could have far-reaching consequences that further limit a city's ability to levy fees on other public services.

Take Action!

The League encourages cities to send letters to their legislators requesting a "no" vote on AB 1004. A sample letter is available at www.cacities.org/billsearch by entering "AB 1004" in the search field.

Support Greater Local Agency Flexibility in Alcoholic Beverage Licenses Review

Send your SB 415 Letter to Your Legislator Today

The League urges cities to give their support to SB 415 (Oropeza), a bill which would increase local agency flexibility in reviewing alcoholic beverage license requests.

Under current law, a city may request a 20 day extension in their review of alcoholic beverage license requests through their police chief. SB 415 would provide local agencies with an additional 10 days on the extension request, for a total of 30 days, to review the license requests and also allow any member of the city council, planning department, or law enforcement to ask for the 30 day extension.

The 30 day review period would better accommodate public meeting schedules and ensure adequate staff review. This is especially important in these tough economic times as cities are reducing business hours and in some cases staff positions.

Take action and send you letter of support today. A sample letter can be found online at www.cacities.org/billsearch by entering "SB 415" in the search field.

An Open Letter from CalPERS CEO to California Cities

Dear League Member,

As the new chief executive officer of CalPERS, I appreciate this opportunity to introduce myself and address a few topics of mutual interest.

As you may be aware, prior to my appointment as CEO, I was CalPERS' chief operating investment officer. Before that, I served as chief deputy State Treasurer.

I recently had the opportunity to meet with League Executive Director Chris McKenzie and Deputy Executive Director Dwight Stenbakken to make sure that there are open lines of communication between CalPERS and our contracting cities. The meeting gave me a greater appreciation of the concerns of cities.

There is no question that we are in challenging economic times. By all accounts, we are in our deepest economic recession since the Great Depression. Our investment and financial markets are being severely tested. All investors have seen significant loss of asset values, from personal retirement savings to big public pension funds like CalPERS. If your city contracts with CalPERS for retirement benefits, you are understandably concerned about how recent investment losses will affect your future retirement costs.

The good news is that your CalPERS employer contribution rates will be largely unchanged next year, the 2009-10 fiscal year.

This is partly due to the rate "smoothing" policy adopted by the CalPERS Board in 2005 that reduces rate volatility by spreading investment gains and losses over 15 years. This prevents employer costs from going up or down dramatically after one or two good or bad years of investment returns. The policy change was made at the behest of contracting employers who wanted greater rate predictability from year to year.

The other factor is that there is a two-year lag between investment performance and the impact on employer rates. Your 2009-10 rates are based on investment returns for the fiscal year that ended June 30, 2007, a year in which CalPERS investments gained 19.1 percent, well above our actuarial target rate of 7.75 percent.

Our rate smoothing policy will minimize rate increases the following year (2010-11) even though the CalPERS pension fund suffered a 5.1 percent loss in the year ended June 30, 2008, as the recession began to take hold. In fact, most cities will likely see a rate *decrease* of less than 0.1 percent based on investment returns alone. However, the demographic experience of your plan may result in a slight net increase in rates.

Rates for 2011-12 are less certain. We will have a better picture of what employer rates will look like after June 30, 2009, when we calculate returns for the full 12 months of this fiscal year. We do know that a loss of 20 percent or more could mean a rate increase of between 2 and 5 percent of payroll, as mentioned in a November 2008 Circular Letter to employers from our Chief Actuary Ron Seeling.

We are very mindful of your dilemma and share your concerns. I can promise you that CalPERS is committed to working with local public agency employers to provide you with the tools and technical assistance to fully understand how our investment returns will affect your valuations and retirement contributions in the future. Our chief actuary is analyzing options for mitigating the impact on city budgets.

I also want to tell you about the actions we are taking to mitigate the effects of the economic crisis on our investment portfolio.

We are proactively analyzing all asset classes and taking a disciplined investment strategy going forward. Our investment staff has taken action to maximize investment opportunities when the economy and financial markets rebound. Our Board widened our asset allocation target ranges for stocks, bonds, real estate, and private equity, which gives us more flexibility to manage our investment portfolio during these unusual times. It means we don't have to sell assets to stay within rigid target allocations that might result in investment losses.

In our real estate portfolio, we have taken a number of steps to calculate the real value of our holdings, analyze the capital structure, restructure debt, and reduce leverage. We are looking at opportunities to participate in the Troubled Asset Relief Program (TARP) developed by the federal government to purchase assets and equity from financial institutions in order to strengthen the financial services sector. And we are ramping up our inflation-linked asset class to invest in infrastructure, commodities, and energy-related businesses.

Of course, market reform is also at the top of our agenda. We recently teamed up with other pension funds representing $900 billion in assets to develop regulatory principles aimed at restoring trust in global capital markets. In addition, our Board has established a new ad hoc committee to ensure the effectiveness of our risk management architecture and infrastructure.

Finally, it is important to remember that CalPERS is a long-term investor. Our investment strategy is designed to weather periodic financial storms. Over the past 75 years, CalPERS has survived numerous market downturns such as the 1987 stock market crash and the recession of 1990. During the 2001 recession, our pension fund lost $50 billion on paper, but we rebounded with a gain of $120 billion over the next four years.

While the past year has been trying for cities that contract with us for retirement benefits, I am optimistic that by working together we will emerge in good shape. No one can predict how long it will take for markets to recover, but we are doing everything possible to ensure that we are investing wisely, managing our risk, protecting your employees' retirement assets, and keeping retirement costs affordable.

I look forward to our continuing dialogue. If you would like to stay abreast of CalPERS developments and how they might affect your city and your employees, I invite you to attend meetings of the CalPERS Board's Benefit and Program Administration Committee, which meets once a month, typically at our Sacramento headquarters. Your input is always welcome. Meeting dates and agenda materials are available on our Web site at www.calpers.ca.gov. And, of course, our Actuarial and Employer Services staff is always available to answer your questions and assist you with conducting CalPERS business.

Sincerely,
Anne Stausboll
CalPERS Chief Executive Officer

League Water Task Force Update

The League's Water Task Force is beginning its work of analyzing and recommending changes to Water Guidelines that the League jointly developed with the California State Association of Counties (CSAC) more than 20 years ago. The guidelines have been used since their adoption in 1988 to help shape League policy on water issues.

The task force met for several hours in Sacramento on Thursday, April 16 to discuss the key water issues affecting cities and how to proceed with the work of updating the Water Guidelines. Thirty-nine members of the 88-member task force attended, including 20 voting members. (Membership on the task force is open to any interested city official, although each League division determines voting members.)

The meeting was chaired by Vice-Chair Harry Armstrong, council member, Clovis, on behalf of the Chair Robin Lowe, Hemet council member and League second vice president, who was absent due to illness.

The meeting opened with presentations that helped to update task force members with current issues and discussions about water reform in the legislature. Presenters were Sen. Dave Cogdill (R-Modesto); Ron Davis, state legislative director, Association of California Water Agencies; Joe Caves, partner, Conservation Strategies Group; and Alf W. Brandt, principal consultant, Assembly Committee on Water, Parks & Wildlife.

Working Groups

Following the presentations, task force members discussed the primary water issues and concerns of their cities. Based on the issues identified, members then formed three working groups, and self-assigned themselves to the following groups:

The working groups are:

- Water Discharge: waste water, water quality, stormwater/runoff, regional boards
- Water Supply/Groundwater: Delta management, supply/storage, water quality, reclamation
- Water Use: education, water quality, demand (conservation), reclamation, mandatory efficiency measures

Over the next few weeks, task force members will be evaluating the Water Guidelines pertaining to their working group, and submitting comments to League staff. Conference calls or webinars with each working group will also occur.

The task force is tentatively planning its next meeting in Sacramento for June 25, to occur following League Policy Committee meetings that day. Recommendations from the task force will be submitted to the Environmental Quality Policy Committee, before being forwarded to the League board of directors.

For more information about the Water Task Force, please visit www.cacities.org/watertaskforce, or email Kyra Ross at kross@cacities.org.

California Communities Launching AB 811 Energy Efficiency Financing Program

Energy efficiency upgrades are an increasingly valuable asset to any property and soon California Communities can help cities finance these projects for home and business owners.

Through AB 811 (2008), assessment liens can be used to finance renewable energy and energy efficiency upgrades. When a property is sold, the lien goes to the next owner until the lien is paid off. This policy makes energy efficiency upgrades for property owners much easier because it helps with the upfront costs and mitigates any fear that the investment will be lost when a property is sold.

California Communities on Dec. 12, 2008 approved the award of a RFP to provide two approaches for cities to use for home and business owners financing of renewable energy projects and energy efficiency upgrades. One program will fund initial loans through a temporary line of credit, with the intent to take out those loans at a later date via a bond issue once sufficient volume is attained. The other will provide direct lending from a large commercial bank for the energy efficiency upgrades and solar projects, without the intent of issuing bonds to take out those loans.

The conceptual framework for the programs has been developed and California Communities is finalizing its approach to legal issues surrounding the priority of a lien created by special assessments under AB 811 and the effects of the lien on a deed of trust for a homeowner or business. The legal issues should be resolved in May with programs scheduled for roll out in August.

For more information, please contact California Communities staff Terrence Murphy at (925) 933-9229 x223 or tmurphy@cacommunities.org.

Corrections Department Proposals Rely on Risk Assessment to Cut $400 Million from Budget

The California Department of Corrections and Rehabilitation (CDCR) put forward five reform proposals in response to the $400 million budget cut the department faces with the FY 2009-10 budget passed in February. CDCR Secretary Matt Cate announced that these solutions are “smart on crime and tough on crime,” allowing CDCR to maximize limited resources without jeopardizing public safety. The proposals’ main thrust would shift the majority of resources towards the serious, violent, and sexual offenders who are at the highest risk of reoffending.

(More information on the CDCR’s risk-assessment tool is available by clicking here.)

Additional details about when these programs will go into effect and how local law enforcement agencies will engage will be announced shortly. Secretary Matt Cate did however confirm that these proposals do not initially meet the $400 million dollar cut so more savings will need to be found elsewhere. These proposals must also win approval from the legislature and Gov. Arnold Schwarzenegger. The five proposals are:

1) **Parole Reform:** CDCR will only keep serious, violent, or sexual offenders on supervised parole and along with non-violent, non-serious, and non-sexual offenders who have a high risk of reoffending. All other parolees who have a commitment offense that is non-violent, non-serious, and non-sexual in addition to qualifying as low-risk will be on direct discharge. This proposal is modified slightly from previous versions because of the additional consideration of the risk-factor management tool.

- **GPS Alternative to Incarceration:** For parole violations deemed less severe, some individuals will qualify for GPS monitoring in lieu of incarceration but only if they meet the low-risk profile.
- **Search and Seizure Provisions Maintained:** Local law enforcement will retain search and seizure authority over state inmates directly discharged for the duration of their would-be parole period, regardless of actual parole status.

2) **Refocus on High-Risk Offenders:** CDCR will minimize case loads for parole agents so they can provide enhanced supervision to those individuals with the highest risk of reoffending.
3) **Enhanced Program Credit Earnings:** Similar to earlier proposals to enhance credit earnings towards early release, state prison and work camp inmates will earn reduced sentence credits for completion of programs that achieve education, work training, behavioral management, and substance abuse rehabilitation goals.
4) **Property Crime Threshold Increase:** The minimum value for stolen goods to qualify as grand theft will be adjusted to meet changes in inflation, increasing from $450 to $900 dollars. The current threshold was set in 1992.
5) **Increased Staff Efficiency:** CDCR will be eliminating positions at their headquarters in Sacramento as well as within the Division of Juvenile Justice, representing the largest administrative cut since the Governor assumed office.

Block Grant Funding for Local Government Workshops

The California Energy Commission (CEC) is hosting workshops for local officials in early May on provisions in the American Recovery and Reinvestment Act related to funds for specific energy related projects. The workshops will focus on the Energy Efficiency and Conservation Block Grant Program (Block Grant), including program description and objectives, funding sources, DOE guidance, application process and timelines for providing input into developing guidelines.

These workshops will provide information to local governments, specifically small cities and counties, about the Block Grant program elements and objectives, application processes, and timelines for developing guidelines and opportunities for public input. All three workshops will follow the same agenda and address the same issues.

Workshop Details

Monday, May 4
1 p.m. - 3 p.m. Energy Efficiency and Conservation Block Grant Program
4 p.m. - 8 p.m. State Energy Program Funding Allocation
South Coast Air Quality Management District, Auditorium
21865 Copley Dr.
Diamond Bar, CA 91765

Wednesday, May 6
1 p.m. - 3 p.m. Energy Efficiency and Conservation Block Grant Program
4 p.m. - 8 p.m. State Energy Program Funding Allocation
UCSF Fresno Center for Medical Education and Research, Auditorium
155 N. Fresno St.
Fresno, CA 93701

Thursday, May 7
1 p.m. - 3 p.m. Energy Efficiency and Conservation Block Grant Program
4 p.m. - 8 p.m. State Energy Program Funding Allocation
California Energy Commission, First Floor, Hearing Room A
1516 Ninth Street
Sacramento, California 95814

Workshops will be webcast where possible. For more information on the workshops, please visit http://www.energy.ca.gov/recovery/meetings/index.html or contact Jennifer Grutzius with the Recovery Task Force at Jennifer.grutzius@recovery.ca.gov, (916) 601-4245.

Register Now for City Finance Workshop, May 29-30

There is no more pressing subject these days than the economy and how city budgets are being affected by dramatically declining revenues. The League's Advanced Leadership Workshop will feature a special track this year—City Finances: What You Need to Know. Scheduled for May 29-30 at the Paradise Point Resort in San Diego, this in-depth seminar will focus on the essential topics of California city finance that every local elected official should know.

Topics include:

- Revenues;
- Financial policies;
- The state/local relationship;
- The state budget;
- Financial reporting and auditing;
- Ethical issues in financial management;
- Log term financial planning;
- Budgeting;
- Cash management and investing;
- Capital financing;
- Debt management; and
- Hot topics and hot tips.

Presentations by top subject experts inducing:

- Mary Bradley, director of finance, Sunnyvale;
- Michael Coleman, fiscal policy advisor, League of California Cities; and
- Ken Nordhoff, city manager, San Rafael.

For more information please visit www.cacities.org/events or call (916) 658-8200.

Become a Facebook Fan of the League of California Cities

There is a new way to connect with the League—Facebook. Launched on Friday, March 27, the page features updates on legislative developments, League activities as well as organizational information.

It's easy to become a fan of the League on Facebook if you are a Facebook member. To find the League's page either search for "League of California Cities" in the search box in the upper right corner of Facebook or click on http://www.facebook.com/pages/League-of-California-Cities/76642059637 to go directly to the page. Under the League logo click on "Become a Fan."
