

PRIORITY FOCUS



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BUDGET SHORTFALL ANALYSIS - INCREASED TAXES, REVENUE REDUCTIONS, NO BORROWING LAO Recommends Large-Scale Permanent Hit to Redevelopment

Less than a week after Gov. Arnold Schwarzenegger released a proposed budget to close the \$11.2 billion shortfall for FY 2008-09, the Legislative Analyst's Office (LAO) released an analysis of the Governor's latest proposal. LAO concurs with the Administration's assessment and projects that the budget shortfall over the next 20 months is \$27.8 billion. While the Governor did not propose an additional shift of redevelopment funds, the analysis recommends a permanent annual shift of \$400 million in redevelopment funds. *For more, see Page 2.*



FORECLOSURE ASSISTANCE PROGRAM COMMENTS DUE NOV. 28

The California Department of Housing and Community Development (HCD) is releasing its plan online today, Friday, Nov. 14 for distributing funds to local governments under the Neighborhood Stabilization Program (NSP). The plan can be found at www.hcd.ca.gov/fa/nsp/index.html. HCD is accepting comments on the plan until Nov. 28. *For more, see Page 3.*



LEAGUE MAKES ECONOMIC STIMULUS RECOMMENDATIONS TO PRESIDENT-ELECT OBAMA'S ADVISORS

With the flurry of activity related to President-Elect Obama's incoming administration, advisors are gathering input on policy directions for 2009. As part of this process, the League was asked for its recommendations on important components of an economic stimulus package for California cities. *For more, see Page 3.*

LAO's analysis supports the Governor's framework to close the gap with a combination of cuts and tax increases and recommends that the Legislature take quick and aggressive action to solve the problem. LAO further suggests alternative revenue increases and program reductions to ensure minimizing harm to the state's taxpayers and core programs, and raises concerns about future shortfalls.

According to the LAO analysis, the Governor's proposal, including a three-year, 1.5-cent state sales tax increase to raise state revenues by approximately \$3.5 billion in FY 2008-09, extending the sales and use tax to certain services, imposing a tax on oil extraction, increasing alcohol and excise taxes by 5-cents per drink, would essentially close the \$28 billion gap. However, in three years when the sales tax increase ends and available funds from the lottery are borrowed, the state's budget problem would grow once again to between \$9 billion to \$11 billion annually.

The analysis also provides some alternatives to the Governor's proposed budget solutions including several that would impact local governments:

- Increasing the required redevelopment Educational Revenue Augmentation Fund (ERAF) shift to schools from \$350 to \$400 million in the FY 2008-09 budget, and making this shift on an annual basis.
- Making a vague proposal related to the Citizens' Option for Public Safety (COPS), Juvenile Justice Crime Prevention Grants, Booking Fees, and Small and Rural Sheriffs' Grants programs. While the Governor's proposal is to shift these programs off of the general fund and backfill a portion of the loss through Vehicle License Fees (VLF), the LAO is not looking at backfilling COPS or Booking Fees from VLF. It has not been determined whether LAO will propose backfilling the Juvenile Justice program.
- Increasing VLF fee revenues from the current rate of 0.65 percent to a full 1 percent, and using those revenues to shift additional state responsibilities to counties.
- Shifting funding from water and regulatory programs to fees, with the rationale that beneficiaries of state services should pay the state's costs of providing these services, and that regulatory programs should be fully funded by regulated entities. League staff is still trying to get more information on this proposal to determine how it could affect local governments.
- Partially shifting funding for wildland fire protection in state responsibility areas to new fees. Property owners benefitting from the service would also pay a share of state costs. The state would still bear one-half the cost of protecting wildlands from fire.
- Repealing the Animal Adoption Mandate and paying prior years' costs over time.
- Eliminating California Gang Reduction Intervention and Prevention program and Internet Against Crimes Against Children Task Force. Program funds for the next several years would be transferred from the Restitution Fund to the General Fund.
- Sweeping all Motor Vehicle Account revenues not subject to Article XIX to be used for general purposes. The League is still attempting to determine if this proposal affects local funding.
- Eliminating the state's First Five Commission established by Proposition 10 (1998) and redirecting 50 percent of these funds to children's health or childcare programs. This would target resources to high-priority state programs while allowing some local priorities to be supported. Prop. 10, which added a 50-cent tax per cigarette pack and annually generates approximately \$700 million for education, health and child care programs related to early childhood development, would impact counties because of the new burden of running administrative services this state commission currently provides.

Corrections/Public Safety: LAO also proposes a number of policy changes to state prison inmates designed to save state costs that will have impacts on local public safety and law enforcement resources:

- Change so-called "wobbler" crimes to misdemeanors. Offenders diverted from prison would still be subject to criminal sanctions at the local level;
- Release all no-lifer inmates 30 days early;
- Exclude inmates with less than six months to serve from prison;
- Reduce time served for parole revocations; and

- Exclude parolees with technical and misdemeanor violations from prison. Offenders could be diverted to community sanctions.

LAO's analysis of the Governor's proposed budget is available online.

http://www.lao.ca.gov/2008/bud/nov_revise/nov_revise_overview_111108.pdf

The Legislature is holding a hearing today to examine both the Governor's proposal and LAO's analysis. As further developments occur with the Special Session the Governor has called to address the revised budget shortfall, updates and analysis will be provided through *Priority Focus*, the League's Web site (www.cacities.org) and the League's listservs.

'Foreclosure Program' Continued from Page 1...

The NSP program works very similarly to the Community Block Grant Program, where the most affected jurisdictions (according to a federal formula) will receive funding directly from the federal government while HCD distributes funding to the remaining affected communities. The just-released HCD plan addresses the funding that will flow through California.

Because of the expedited process required in the law, HCD must submit its plan to the federal Department of Housing and Urban Development (HUD) by Dec. 1, which is why the HCD deadline for comments is Nov. 28. A hearing at the HCD offices in Sacramento is scheduled for Nov. 21.

Cities that are expecting to participate in this program are strongly advised to review these materials and contact HCD with questions.

Background

The American Housing Rescue and Foreclosure Prevention Act of 2008 (H.R. 3221) included among its numerous provisions the Neighborhood Stabilization Program (NSP), which provides \$3.9 billion nation-wide to state and local governments to purchase abandoned and foreclosed homes and residential property. The intent is to rejuvenate neighborhoods and communities that are hardest hit by the foreclosure crisis. This funding allows localities to renovate and rehabilitate those homes, eliminating blight and reinvigorating and stabilizing the affected neighborhoods.

The funds can be used to:

1. Purchase and rehabilitate homes to sell, rent or redevelop;
2. Create land banks for homes that have been foreclosed upon;
3. Demolish blighted structures;
4. Redevelop demolished or vacant properties; and
5. Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties.

Homes that are purchased with the NSP funds must be sold or rented to low or moderate income families.

'Economic Stimulus' Continued from Page 1...

The recent economic downturn has had a significant impact on cities' budgets and resulted in cuts to many vital services such as public safety, parks and libraries. An economic stimulus package that includes either direct cash assistance, block grants with broad flexibility, and funds to invest in infrastructure and adaptation to climate change would be helpful. Cities are poised to put these funds to use immediately and can produce results that would strengthen cities and the overall economy on multiple levels.

In outlining recommended provisions for the federal economic stimulus package, the League proposed nine federal investment opportunities at the local level.

- Fully Fund Energy Efficiency and Conservation Block Grants (EECBG);

- Support Transit-Oriented Infill Infrastructure;
- Provide Funding for Storm Water Management;
- Funding for Maintenance and Upgrades of Local Streets and Roads;
- Restore Rental Housing Tax Break;
- Support \$10 Billion in Community Development Block Grant (CDBG) Funding in the Next Stimulus Package;
- Support \$1 Billion for the HOME Investment Partnerships Program for Energy Efficiency;
- Provide Incentives to Upgrade Vehicle Fleets and Heavy Equipment; and
- Return to Previous Federal “Revenue Sharing” Programs.

Cities with advocates in Washington, D.C. are encouraged to share the League's recommendations with them because they may be approached for input during the new administration's policy development. The League has posted its economic stimulus recommendations online. http://www.cacities.org/resource_files/27384.L league's EconomicStimulusPrioritiesupdated08FINAL.pdf

Prop. 1B Local Streets and Roads Applications Now Available Online

The Department of Finance (DOF) released application instructions this week for the FY 2008-09 allocations of Proposition 1B Local Streets and Roads (LSR) funds. Application information and instructions are available at http://www.dof.ca.gov/bonds/proposition_1b_disbursements/2008-09_appropriation/.

The FY 2008-09 state budget includes a \$187 million appropriation for cities from the Prop. 1B Local Streets and Roads (LSR) account (counties have a separate allocation). This appropriation is available on a first-come, first-served basis to cities that have already received their full allocation in FY 2007-08. Cities must meet the following criteria to be eligible for funding:

1. Received full allocation for FY 2007-08;
2. Submitted a Prop.1B LSR Annual Report to DOF for FY 2007-08;
3. Agreed to use the funds only for projects that do not currently have dedicated funding;
4. Must commit the funds to projects before July 1, 2009; and
5. Must certify that the unencumbered balance of their road fund is no more than three months of anticipated Highway User Tax Account (HUTA) and Prop. 42 incomes. If the unencumbered balance exceeds this amount, the city must have agreed to decrease the unencumbered balance be either of the following:
 - a. An amount equivalent to the allocation received in FY 2008-09, or
 - b. Until the unencumbered balance is no more than three months of anticipated HUTA and Prop. 42 incomes.

Note: For the purpose of this item, “unencumbered” means any portion of funding that is not designated, through prior approval by the city council, for use on the planning, review, design, or construction phase of a project currently underway at the time of the road fund report.

Infrastructure Bond Matrix Has Available Funding Information

The League has created a special matrix outlining all monies available to cities from the 2006 Infrastructure Bond Package. With information on more than 50 different funding sources, as well as contact resources, this matrix is an invaluable tool for city officials interested in securing available funds. The matrix is regularly updated in order to provide city officials with the most accurate information on bond status. It was most recently updated on Monday, Nov. 3.

In addition to regularly publishing the matrix, the League will also provide notice of funding opportunities and longer stories on specific items of interest, such as Proposition 1B Local Streets and Roads funding, through *Priority Focus* and the League's various listservs.

The latest copy of the matrix is posted on the League's Web site.

http://www.cacities.org/resource_files/27383.2006InfrastructureBondsUpdateOct08final32Sept2008.pdf

President-Elect Barack Obama Comments on Need for Infrastructure Investment

Citing a loss of more than \$1.2 million jobs within the last year, President-Elect Barack Obama once again discussed the importance of a plan to create jobs which should include a major investment in infrastructure.

President-Elect Obama and his transition team spent last weekend outlining his key priorities. Among them is an economic stimulus package being discussed by Congress. The plan is reportedly centered around infrastructure spending and is expected to include anywhere from \$60 billion to \$100 billion in funding.

The League of California Cities is working with the National League of Cities (NLC) to urge Congress to include local governments in any infrastructure or economic stimulus package. Additional information about NLC efforts can be found on its Web site at www.nlc.org/advocating_for_cities/index.aspx.

Register Now for Dec. 2 Conference on AB 32 and Local Government

The Public Policy Institute of California (PPIC) is offering a conference on Dec. 2 in Sacramento on its research into how local governments in California address and adapt to climate change. Titled "Emerging Issues in Climate Policy: Promoting Local Initiative, Addressing Impacts", the half day event will focus on the role local governments will play in helping the state reduce emissions to 1990 levels by 2020 to meet AB 32's goals. The California Research Bureau is co-sponsoring the event.

Speakers include:

- Louise Bedsworth, PPIC researcher
- Ellen Hanak, PPIC researcher
- Lieutenant Governor John Garamendi
- Ron Loveridge, mayor, Riverside
- Julia Burrows, deputy city manager, Roseville

Event details:

9 a.m. registration, 9:30 a.m. to 1 p.m. conference with lunch provided

California State Association of Counties Conference Center
1020 11th Street, 2nd Floor
Sacramento, CA 95814

Registration:

The event is free but space is limited so city officials are encouraged to register immediately by contacting PPIC via e-mail at events@ppic.org to reserve a spot.

Sustainable Cities Feature: The Gateway Cities Clean Air Program

The Gateway Cities Clean Air Program successfully completed its six year pilot project in October and now the Ports of Long Beach and Los Angeles are taking the ambitious air quality improvement program to the next level.

A sub-unit of the Southern California Association of Governments (SCAG), the Gateway Cities Council of Government (GCCOG) comprises 27 cities in south eastern Los Angeles County

including Long Beach, Whittier, Downey, Norwalk, Cerritos and Lakewood. The smaller council of government covers about 2 million people in a larger region of 20 million. GCCOG launched its clean air program in 2002 after staff examined a South Coast Air Quality Management District study which found high concentrations of diesel particulates along the freeway corridors in its region. Jack Joseph, GCCOG deputy director says staff was concerned because these particulates are related with higher instances of cancer, asthma and other respiratory diseases.

Wanting to improve local air quality, the GCCOG applied for federal funding to start a pilot program in 2002 to provide grants to diesel truck owners who would turn in their older model truck cabs to purchase newer vehicles. The program wrapped up on Oct. 1, 2008.

GCCOG initially received \$1.2 million from the U.S. Environmental Protection Agency. Ultimately, the project secured a total of approximately \$30 million in six years from a number of agencies including the California Air Resources Board, the South Coast Air Quality Management District, the Port of Long Beach and the Port of Los Angeles.

When the program first launched earlier this decade, a variety of trucks qualified such as trucks working out of the ports as well as cement and asphalt haulers. However, as the two local ports became more involved and provided more funding, the focus shifted to trucks transporting goods out of the ports.

The age of the trucks replaced ranged from the late 1960s to mid 1990s. Unlike a vehicle that runs on gasoline, diesel engines can run upwards of a million miles and because they are extremely costly to replace, a diesel truck can remain on the road for decades—the older the model the more it pollutes. According to Joseph, a newer used cab costs approximately \$60,000 and a brand new one can run between \$100,000 and \$120,000.

Under the program, diesel truck owners—trucks that typically pull 40 foot containers of goods out of the ports—could apply for a grant that would cover about two-thirds of the cost of a newer, less polluting “cab.” The grant amount was determined by how much air quality would improve with the newer model based on the age of the scrapped cab and the miles it was driven annually. Program participants entered into an agreement with GCCOG stating that they would stay in the trucking profession for five years and would drive 85 percent of their miles in the region.

“The reason we required participants to pledge to remain in the program for five years is because we wanted to keep the benefits in the region,” said Joseph who continued “We hope that they stay in the profession and area beyond five years so there are even longer term benefits.”

In six years, the pilot took 650 older diesel trucks off the road replacing them with newer models. GCCOG’s staff estimates that for every older truck scrapped in the program, one ton less of nitrous oxide (NOX) is released over a five year period. NOX is one of the components responsible for smog formation. Additionally, each newer model on the road reduces particulate emissions by six-tenths of a ton over the same period.

Although the pilot project ended last month, it had tremendous impact beyond the 650 trucks replaced. The Ports of Long Beach and Los Angeles are taking it to the next level. “It was a pilot program that worked and when pilot programs work, it moves on to a larger and more permanent program. That’s exactly what happened in this situation and we feel good about it,” said Joseph.

The two ports are now expanding the program dramatically and have a goal to take 16,000 older diesel trucks off the road. It has been estimated that 45 percent of cargo coming into the U.S. comes into either the Port of Long Beach or Los Angeles so improving the efficiency of vehicles transporting these goods goes a long way to improving the air quality in southern California.

GCCOG is now moving onto new air quality improvement projects in its region, including a plan to improve the 710 freeway, which is the major route to move cargo out of the ports and into the region.

Additional information about GCCOG can be found on its Web site at www.gatewaycog.org.

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

Visit (and bookmark!) the League's [Legislative Resources](http://www.cacities.org/legresources) 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.
