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

PRIORITY FOCUS

LEAGUE OF CALIFORNIA CITIES

IN THIS ISSUE:

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PROPOSITION 42 FUNDING AGAIN AT RISK

Proposal Suggests Altering Formula Funding Percentage for Cities

Last November, when voters passed Proposition 1A, it was with the belief that funding for transportation through the sales tax on gasoline (Proposition 42, passed in 2002) was protected.

Guess again.

Due to a significant increase in spillover funds recently, these funds continue to be a target in times of state budget shortfalls. There are a number of proposals on the table that seek to protect the spillover funds so they remain dedicated to transit funding as originally intended.
For more, see Page 2.

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BILL TO ADJUST COUNCIL SALARIES PASSES OUT OF THE ASSEMBLY

Assembly Member Hector De La Torre, D-South Gate, is authoring AB 701, a bill that will adjust the base salaries of council members in general law cities up to inflationary standards. The League of California Cities supports AB 701, and encourages general law cities to pay close attention to the bill. *For more, see Page 3.*

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LEAGUE PARTNERS TO HOST SAN JOSE NETWORKING RECEPTION

In conjunction with the League of California Cities' June policy committee meetings in San Jose, the League Partners program is hosting a networking reception on June 28, from 4:30 p.m. to 7 p.m. at the Sainte Claire Hotel, located one block from the San Jose Hilton.
For more, see Page 3.

This year, Gov. Schwarzenegger has proposed to divert spillover funds away from transit, leading to discussions about long term protection of spillover funds dedicated to transit.

A proposal has circulated around Sacramento that would change the Prop. 42 formula funding, giving cities a lower percentage. The current Prop. 42 formula consists of 40 percent for the State Transportation Improvement Program (STIP), 20 percent for cities, 20 percent for counties and 20 percent to transit. The new proposal reduces STIP to 25 percent, cities to 15 percent, counties to 15 percent and increases transit to 35 percent.

The new proposal, which passed out of Assembly Budget Subcommittee #5 last week, bases the changes on increased "spillover" funds. Supporters argue that the proposal would capture these funds and put them into Prop. 42, thus increasing the amount of funding cities receive, despite the decrease in overall percentage. (For a detailed explanation and history of "spillover" funds see "The 'Spillover' from the Sales Tax on Gasoline" on www.CaliforniaCityFinance.com.)

A key sticking point, however, is that projections have only been done for three years and spillover funds are subject to numerous changes. This would make any alteration of the funding formula a risky proposition for cities, because there is no guarantee that cities would be allocated a consistent amount of money.

What this Means for Cities

On its face, the change appears positive because it includes the addition of spillover funds to Prop. 42, so lowering cities' percentage share may result in increased funding for the foreseeable future. In the long term, however **it is impossible to accurately project spillover**.

The spillover money is, by its nature, highly volatile and unpredictable. If there is a leveling-out of gas prices, and cities have a lower percentage of the spillover funds, this change could sacrifice the long term stability in favor of a short term gain. There were 13 years within a 17-year period from 1986-2003 with no spillover.

In addition, although Prop. 42 funds have achieved Constitutional protection; the same is not true for spillover funds. Spillover funds are still vulnerable. During any budget cycle, the state has the ability to divert the funds for other purposes, leaving less money available for cities, counties and the STIP under the proposed formula change.

In a year when the spillover funds go to Prop. 42, per the proposed formula, cities will share a smaller portion of a larger pot of money. The concern arises in years when the state attempts to use spillover monies for other purposes because this means that cities are now sharing a smaller percentage of a smaller pot of money.

Consequently, cities face significant risk being at the whim of the state. Any reliance on funding with this sort of turbulence will create uncertainty, confusion and distress in local budgets. Cities also need to consider that in the long term there are other, better options to provide increased funding to transit.

Take Action!

If this proposal comes to fruition, cities' ability to protect, maintain and expand local streets and roads would be threatened. The League encourages local officials to contact the Republican members of the State Assembly, letting them know how detrimental any change in the Prop. 42 formula funding would be for cities.

Here are some suggested talking points:

- Cities were recently made aware of a proposal to change the Proposition 42 formula.
- The Legislature should **not** change the existing formula. Cities counties worked hard to pass state ballot measures protecting these funds for our local streets and roads.

- Changing the existing Prop. 42 formula goes against the intent of voters when they supported Proposition 1A in 2006.

- Current Prop. 42 formula: 40 percent to the State Transportation Improvement Program (STIP), 20 percent to cities, 20 percent to counties and 20% to transit.

- Proposed Prop. 42 formula: 35 percent to STIP, 15 percent to cities, 15 percent to counties and 35 percent to transit.

- While some may say that the addition of "spillover" funds to this formula means more money in the short term for cities, we see no stability in the long term.

- Spillover is by its nature extremely volatile and unpredictable. There was no spillover in 13 of the 17 years between 1986 and 2003.

- Any reliance on spillover funding with this sort of turbulence creates uncertainty, confusion, distress in local budgets.

- Cities deserve the stability of being able to rely on these funds in the future as promised to us.

Cities clearly support transit funding. But the proposed change Prop. 42 destabilizes local street and road funds and is not the way to go.

'AB 701' Continued from Page 1…

The Legislature has not adjusted base salaries for general law cities' council members since 1984. AB 701 is consistent with the agreement Assembly Member De La Torre made to the League last year in response to the outdated and inconsistent adjustment of general law city council member salaries.

To assist De La Torre's efforts with AB 701, the League is considering forming a small sub group to examine how best to approach adjusting the base salaries so that a change does not abuse any prior agreement or future salary schedule.

The legislation is part of De La Torre's two-prong approach which began last year with AB 11. The assembly member authored AB 11 to address what he viewed as council salaries that were exuberant, including commission salary spiking and excessive automobile allowances. While carrying AB 11, De La Torre, agreed to revisit general law city council member "base" salaries in 2007, which is the reason behind AB 701.

The League has submitted a letter of support in favor of the bill. AB 701 passed off the Assembly Floor on Thursday, May 17, on a vote of 64-8. The bill now moves to the Senate but it has not yet been set for a policy committee.

'League Partners' Continued from Page 1…

The reception is an opportunity for policy committee members, League Partners, League staff and local Silicon Valley business leaders a chance to mix and mingle in a relaxed environment. In addition, the reception is part of an ongoing effort on behalf of the League Partners program to provide social and networking opportunities in conjunction with League meetings and events.

For more information or to RSVP, contact Mike Egan at (916) 658-8271 or egan@cacities.org.

Register Now for the League's Annual Conference!

Annual Event Scheduled for September in Sacramento

Registration for the League of California Cities' 2007 annual conference is now open at www.cacities.org/ac. The conference will be held in Sacramento on Sept. 5-8.

There is a change in how you register for the conference and hotel rooms this year. All attendees **must** register for the conference first before a hotel room can be booked. Hotel rooms in Sacramento are extremely limited, so please take a moment now and ensure that you and the other individuals from your city are registered for the conference and have housing.

A tentative schedule for the annual conference is located at www.cacities.org/ac.

June Issue of *Focus on Housing* Released

The June issue of *Focus on Housing*, the League of California Cities' monthly electronic newsletter covering affordable housing, was published on Wednesday, May 30.

This edition features profiles of two affordable housing developments and a roundup of the latest affordable housing news in California. Read the current issue, or to sign-up as a subscriber at www.imakenews.com/focusonhousing or www.cacities.org/focusonhousing.

Get Involved!

Do you have an affordable housing success story or a housing event in your city you want to promote? Let us know! *Focus on Housing* is seeking submissions for feature articles. For more information and specific article requirements, contact League Communications Specialist Brian Heaton at bheaton@cacities.org.

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.
