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

PRIORITY FOCUS

LEAGUE OF CALIFORNIA CITIES

IN THIS ISSUE:

May 16, 2008
Issue #19-2008

GOVERNOR KEEPS PROPS. 1A AND 42 COMMITMENT AS CITIES STRUGGLE WITH LOCAL REVENUE LOSSES AND BUDGET CUTS

On Wednesday, May 14, Gov. Arnold Schwarzenegger released his May revision to the 2008-2009 state budget. The Governor's revised budget proposes a number of creative solutions to a now-estimated $17.2 billion shortfall. One aspect of the Governor's proposal includes seeking voter approval in November to "securitize" $15 billion based upon future state lottery revenues, using $5.1 billion of that amount for the FY 2008-09 budget and placing the remainder in a reserve fund mechanism which would also need to be approved by voters. If voters reject the lottery proposal, a 1 percent sales tax increase would be triggered for three years.
For more, see Page 2.

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CITY OFFICIALS URGED TO ATTEND BUDGET ACTION DAY ON MAY 21

The League is holding a special one-day event on Wednesday, May 21 to bring city officials to Sacramento to lobby their legislators and administration officials on the impact of the Governor's revised budget on cities. *For more, see Page 5.*

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SUPPORT LETTERS NEEDED FOR TWO REVENUE AND TAXATION BILLS

The League encourages cities to send letters supporting two revenue and taxation bills that benefit local government, AB 1957 (Eng) and AB 1836 (Feuer). The first relates to the collection of use taxes, and the second concerns infrastructure financing districts. *For more, see Page 6.*

Important to cities is the fact that the Governor's plan does not propose to borrow cities' share of property taxes through Proposition 1A and continues to provide full Proposition 42 transportation funding.

The Governor's reluctance to borrow local funds to fill the deficit appears to be based upon his philosophy that the state must address its own budget problems. In his annual State of the State address in January, the Governor acknowledged that previously, in times of budget shortfalls, the Legislature took money from local governments, transportation, bonds and pension funds. He told Californians that those avenues are now limited due to several voter-approved initiatives.

This theme was reiterated when the Governor discussed his May revise proposal on May 14. In response to a reporter's question about proposed additional cuts to Health and Human Service programs, he said, "Everyone has to tighten their belts. Local government has to tighten their belts, we have to tighten our belts."

The Governor also mentioned his recent travels and town hall meetings held throughout California this spring. In those meetings, he said he repeatedly heard that the state must fix its budget system and not spend beyond its own means. The Governor said in his opening remarks on May 14, "What they want us to do is to fix our dysfunctional budget system once and for all, so that we don't have to go through this pain every time the economy cools off."

The Governor's revised budget retains the proposed 10 percent across-the-board cuts to state agencies, but increases funding for K-12 education to meet the minimum threshold for Proposition 98, eliminates the prior proposal for the early release of 20,000 inmates, and prevents state park closures by increasing fees.

Through executive order, the revised budget would also create a bipartisan tax commission called the Tax Modernization Commission. The created body would be comprised of legislative and gubernatorial appointees charged with budget reform that would improve the state's tax laws.

Funding Areas of Specific Interest to Cities

The Governor's revised budget includes funding allocations for these programs of importance to California cities.

<u>Public Safety</u>

COPS/Juvenile Justice Grants. The Citizen Option for Public Safety (COPS)/Juvenile Justice Crime Prevention Act Program is subject to the Governor's across-the-board January proposed 10 percent cuts to state agencies. The revised budget would continue to fund these programs at a level of $214 million.

Booking Fees. Payments to counties for Local Detention Facilities (Gov Code 29552) were also subject to the January budget's proposed 10 percent reduction. The revised budget maintains the amount proposed in January of $31.5 million. Current law stipulates that in any year that the budget appropriation is less than $35 million, counties may impose booking fees on cities in proportion to the amount under appropriation. In this case, it would be up to 10 percent of cost.

Early Release/Summary Parole. While the Governor's May revise withdraws the "early release" proposals, the summary parole program included in his January budget continues as a proposal for a cost savings of $173.6 million, approximately $75.7 million more than previously estimated for FY 2008-09.

"Summary parole" is defined as the status of a person who is under the jurisdiction of the California Department of Corrections and Rehabilitation (CDCR) during their parole period but is not subject to regular and active supervision by the CDCR. The CDCR has the authority to continue to provide services, as deemed necessary, to any person on summary parole.

Summary parole applies to all inmates serving a sentence in state prison at the expiration of their term except those who have been sentenced for, or committed in prison:

- A violent or serious felony, including murder, mayhem, rape, lewd or lascivious acts, or a threat of great bodily harm, or serious felonies involving dangerous or deadly weapons; or

- An offense requiring registration as a sex offender.

Additional conditions of summary parole include:

- Summary parolees are subject to drug testing and search and seizure, with or without a warrant, at the request of any peace officer in the performance of his or her duties.

- The parole authority may revoke an individual's summary parole status and order that person return to prison only upon conviction of a *new* offense, not related to the original cause for incarceration.

- An individual will be released from summary parole if he or she has been continuously on summary parole for one year since the time of confinement in a state prison, unless the CDCR recommends to the Board of Parole Hearings to retain that person on parole.

Law enforcement associations and agencies are continuing to review this proposal to estimate the impact it will have on public safety in local communities.

Adult Secure Re-entry Facilities. The revised budget maintains funding to bring the Northern California Re-entry Facility online and operational in 2009.

Emergency Response Initiative. The revised budget includes the creation of the Emergency Response Initiative (ERI) (formerly known as the Wildland Firefighting Initiative). Through this program, the emergency response capabilities of the California Department of Forestry and Fire Protection (CAL FIRE), the Office of Emergency Services (OES) and the Military Department are increased.

The new initiative proposes two levels for the surcharge assessed for those carrying insurance on residential or commercial property. For those in "high-hazard zones" as determined by CAL FIRE and OES risk maps, there is a 1.4 percent surcharge. This is roughly equal to the average cost of $12.60 per household annually. For those in the "low-hazard zones" the surcharge is 0.75 percent, roughly equal to $6.75 per household. Total revenues from the surcharge are estimated to reach $69.3 million for 2008-09.

Collected monies will be deposited into the Emergency Response Account and will be used by CAL FIRE and OES in FY 2008-09 to cover full staffing for CAL FIRE fire engines during peak and transition fire seasons, maintenance for existing OES emergency vehicle fleet, and General Fund backfill for program and administrative costs.

Transportation

Highway User Tax Account Payments. The Governor's May revise makes no changes in the expected repayment to local government of approximately $500 million in the Highway User Tax Account (HUTA) funds that were deferred for state cash-flow purposes as part of the FY 2007-08 mid-year budget cuts. The payments for the period between April and August are expected to be paid in full without interest in September.

Proposition 42 Funds. While the Governor's revised budget estimates a decrease in total Prop. 42 revenues from $1.49 billion to $1.43 billion, there are no changes to the payment schedule for FY 2008-09.

A city-by-city breakdown of allocations is posted online at www.californiacityfinance.com/Prop42alloc.pdf.

Proposition 1B Funds. As originally outlined in the Governor's January budget, there is no additional allocation of Prop. 1B Local Streets and Roads funds to cities for FY 2008-09. As of May 15, the Department of Finance reports that $339.5 million has been allocated to 323 of California's 478 cities (from the total FY 2007-08 allocation of $550 million).

The May revise contains no major alterations to any of the additional proposed allocations of Prop. 1B transportation funds that were listed in the Governor's January budget.

"Spillover" Funds from Gasoline Tax Revenues. Due to the increase in gas prices, the "spillover" monies collected from gasoline sales tax revenues are $286 million higher than estimated in the Governor's proposed January budget, for a total of $1.177 billion. The spillover is produced when the growth in revenue collected from sales taxes on gasoline sales taxes is higher than the growth in revenue derived from all other taxable sales.

An explanation of the "spillover" is posted online at www.californiacityfinance.com/SpilloverFAQ.pdf.

The May revise allocates $306 million to the Public Transportation Account (PTA) with remaining funds from the "spillover" revenues going to K-12 home-to-school transportation and debt service on current and prior year transportation-related general obligation bonds.

The California Transit Association (CTA) provides an analysis of the PTA allocation for FY 2008-09, concluding that the allocation to transit should be greater than the amount stated in the May revise based on applicable statutory formulas and the historic intended use for these funds.

The CTA analysis of the PTA FY 2008-09 allocation is available at www.cacities.org/resource_files/26813.2008-09MayRevision.pdf.

Housing

The May revise contains no major alterations to any of the additional proposed allocations of Prop. 1C housing-infill funds that were listed in the Governor's January budget.

Resources and Environment

The Governor's revised budget proposes an additional $13.3 million in funding for the Department of Parks and Recreation to provide funding for 48 state parks. The proposal provides $11.8 million from the General Fund plus $1.5 million generated by increasing state park fees ($1-$2 per person at selected parks).

The California Air Resources Board (ARB), under the revised budget, would transfer $48.7 million from its Air Quality Improvement Fund to finance loans and loan guarantees to assist truck retrofits proposed by ARB. This would be a one-time transfer.

Local government fleets, to the extent that they qualify under the new regulations, may qualify for the loans and loan guarantees offered by ARB.

Propositions 84 and 1E. The May revise makes several minor adjustments related to specific projects funded by Props. 84 and 1E.

Debt Repayment and Local Government Finances

Reimbursement State Mandates Program

The Governor's January budget proposed payment of state mandates to local government as part of the repayment of mandates for costs incurred prior to July 1, 2004. Instead, however, the revised May budget would defer $75 million in state mandate repayments. Cities receive about 30 percent of mandate repayments.

Details on Governor's Lottery and Budget Stabilization Proposals

The Governor is proposing to securitize the California State Lottery to finance the "rainy day" fund that would be created through his Budget Stabilization Act. Essentially, this process would borrow money against future earnings from the lottery. The Governor says that "modernizing" the lottery would improve its performance and increase pay-out in prizes to spur an elevation of ticket purchases and thus revenue. Generated funds would be used to make the initial down-payment to the Revenue Stabilization Fund.

The Administration estimates that this would provide about $15 billion. For FY 2008-09, $5.1 billion would be used to help reduce the deficit and the other $10 billion would remain in the reserve account for future budget shortfalls.

The Budget Stabilization Act and lottery proposal would go before the voters for approval in November.

In presenting the revised budget, Gov. Schwarzenegger also put forth an insurance policy to protect the revenue streams that will help close the deficit for FY 2008-09 and into the future. He says, however, that he is confident this mechanism won't need to be used.

If revenues fall short, or if the lottery doesn't get approved, a temporary 1 percent sales tax increase would be triggered until the Revenue Stabilization Fund has a sufficient balance. Californians will receive a tax rebate equivalent to the revenues collected through the mechanism. This mechanism is similar to what Gov. George Duekmejian created in 1983.

Next Step in the Budget Process

The fiscal year officially ends June 30; however, since FY 1977-78, the Governor has only signed the next year's budget by that deadline eight times.

The LAO and the legislative budget subcommittees will review the May revise in-depth in the coming weeks. Given that some of the initial legislative reactions to the Governor's lottery and other proposals were both critical and skeptical, it is not clear how much traction this proposal will have as part of the budget solution.

The Governor has proposed a budget that cuts some state subventions to cities (COPS, booking fees, etc. by 10 percent) but does not propose using local tax funds to shore up the state budget. If the Legislature doesn't support the Governor's direction, the result will be a fresh effort to identify other ways to close the budget. This could involve additional proposals for cuts to state programs, raising tax revenues through various means, transferring or borrowing local government revenue, or other solutions. In short, expect the political climate to be volatile. **City officials should remain on alert and ready to respond quickly to budget-related action alerts.**

The League's Budget Action Day is May 21. Please see "City Officials Are Urged to Attend Budget Action Day," on page 1.

Budget Resources

A copy of the Governor's budget can be found online at www.ebudget.ca.gov.

The Governor's revised budget remarks can be found on his Web site at http://gov.ca.gov/may-revise/webcast.

'Budget Action Day' Continued from Page 1…

With California's fiscal crisis, the FY 2008-09 budget negotiations are expected to be extremely difficult. The final signed budget will likely include a combination of significant cuts and revenue-generating solutions, and the May revise (released May 14) has set the tone for the coming weeks of negotiations. California cities need to join forces to respond to relevant May revise proposals to ensure cities' needs are heard and understood in the Capitol.

Schedule of Events

10 – 11:30 a.m., May Revise Budget Briefing
Sheraton Grand Hotel Sacramento, Bataglieri Room
1230 J Street
Sacramento, CA 95814

10 a.m.—Introduction:
Jim Madaffer, President, League of California Cities
Chris McKenzie, Executive Director, League of California Cities

The speakers below will discuss their reactions to the May Revise.

10:20 a.m.— Michael Genest, director, Department of Finance

10:40 a.m.—Assembly Member Roger Niello (R-Sacramento), vice chair, Assembly Budget Committee

11:15 a.m.—Assembly Member John Laird (D-Santa Cruz), chair, Assembly Budget Committee

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

3:30 – 4:30 p.m., Post-Lobbying Debrief *(Stop by the League offices for light snacks and refreshments)*
League of California Cities
1400 K Street, 4th floor conference room
Sacramento, CA 95814

R.S.V.P.

Please R.S.V.P to League Staff Meghan McKelvey immediately at mmckelvey@cacities.org or (916) 658-8253.

District Budget Meetings

City officials who are unable to make the trip to Sacramento on May 21 are encouraged to contact their League public affairs manager to schedule a district meeting with their legislator.

'Revenue and Tax Bills' Continued from Page 1…

AB 1957 (Eng): Collection of Use Tax

This bill improves the collection of use tax revenues owed to state and local government by consumers and businesses by clarifying the state's income tax forms to properly alert taxpayers about their use tax obligation. Consumers and business may be unaware of the existence of this tax.

A "use tax" is a tax imposed by a state to compensate for the sales tax lost when an item is purchased out of state, but is used within the state.

Each year, millions of dollars in state and local revenues owed by consumers and businesses in the form of use taxes go uncollected.

Assembly Member Eng's legislation is of growing importance in an economy where people are doing more and more of their shopping through the Internet. Although sales taxes are not collected for online purchases made at out of state retailers, use taxes, of the same amount, are owed by the purchaser. Improved collection of these revenues could provide an important source of funding for vital state and local programs.

A sample letter can be found at www.cacities.org/billsearch. Search for AB 1957.

AB 1836 (Feuer): Infrastructure Financing Districts

This bill streamlines existing law related to the formation of Infrastructure Financing Districts (IFD) by removing an unnecessary voter approval requirement. The IFD law is a mechanism placed into statute in 1990 to allow local governments to finance projects through bonds secured by the growth of property tax revenues within that district. The law states that consent is required by local agencies in the district which would be affected by the diversion of the property tax for the IFD.

In the past, this law has been infrequently used due to cumbersome requirements. Essentially, AB 1836 is an attempt to improve its usefulness. Some communities may find this a helpful option for building local infrastructure that can spur local business and housing development and create jobs.

A sample letter can be found at www.cacities.org/billsearch. Search for AB 1836.

Support Letters Needed for SB 1236

City officials are urged to send letters of support on SB 1236 (Padilla). The bill would ensure that the Maddy Emergency Medical Services (EMS) funding stream can continue to provide physicians and hospitals with crucial funding reimbursements to retain the emergency care staff essential to city fire departments and citizens.

The California statute that allows a county board of supervisors to establish an additional $2 charge on every $10 fee collected on criminal offenses and deposit the increased fee into the Maddy EMS fund is set to expire this year. The funds collected through this additional fee are used to reimburse trauma centers for the treatment of uninsured patients, and SB 1236 extends the law’s sunset date by five years until 2014.

Hospital emergency departments have continued to lose staff and discontinue their operations because of the high costs associated with treating uninsured patients. In the past decade, more than 65 emergency rooms have closed, and city fire department paramedic units have consistently been redirected to emergency service centers or hospitals due to low staffing or patient overcrowding.

Take Action

A sample letter is available for your city to fax to the Assembly Public Safety Committee and other key contacts at www.cacities.org/billsearch. Plug in SB 1236 to the bill search function to access the sample letter of support, along with faxing instructions.

Monday Is Last Day to Register for Mayors and Council Members Executive Forum

The last day to register for the 2008 Mayors and Council Members Executive Forum and Advanced Leadership Workshops is Monday, May 19. Slated for Wednesday, June 4 – Friday, June 6, the annual event will be hosted at the Resort at Squaw Creek in Squaw Valley.

Created for mayors, mayor pro tems, council members, city managers and assistant city managers, the three-day conference is designed to equip city leaders with the skills they need and offer practical workshops for planning ahead for the challenges their city is facing. Sessions include:

- Achieve Substantial Water Saving in Your City
- Strategies for Council-Manager Conflict Resolution

- Gang and Violence Protection
- Delivering Messages in the Media Interview
- Land Use and Climate Change
- And much more!

Advanced Leadership Workshops will be offered Friday, June 6 – Saturday, June 7. Participants may choose from one of three workshop tracks: economic development, meeting management or city finances. A separate fee is required for Advanced Leadership Workshops.

To register online, visit www.cacities.org/events.

For more information, contact Brian Sanders, the League's education program director, at bsanders@cacities.org or (916) 658-8238.

Governor's Office of Homeland Security Conference: May 28 – 30

The Governor's Office of Homeland Security (OHS) invites local government leaders to attend the 2008 Annual Conference "Managing the Threats of Today and Tomorrow," slated for Wednesday, May 28 – Friday, May 30 in Palm Desert.

Attendees will hear from national experts on the latest trends, threats and strategies to protect California and the nation with nationally known speakers highlighting current issues affecting homeland security. Lawrence Wright, world-renowned expert on terrorism and author of the best-selling book, *The Looming Tower: Al-Qaeda and the Road to 9/11*, will be the keynote speaker.

The conference will provide resources for local officials to bring back to their communities and the opportunity to meet and interact with homeland security partners and provide feedback on how OHS can better secure and prepare California.

The 2008 Annual Conference will be held at the Desert Springs J.W. Marriott. Conference agendas, speakers, and registration information can be found online at www.cce.csus.edu by searching for "Office of Homeland Security."
(http://www.cce.csus.edu/conferences/ohs/08/index.htm)

California Climate Action Network Launches Survey

The California Climate Action Network (CCAN), a program of the Institute for Local Government (ILG), continues to lead the way in assisting local agencies with networking, resources and tools for addressing climate change. In the next week, in collaboration with the Public Policy Institute of California, CCAN will launch a survey of city managers and county administrators to determine climate change-related policies and programs already undertaken at the local level and the kind of support needed for further action.

The survey will be distributed via e-mail and can be completed online or downloaded and submitted by fax. City officials are encouraged to complete the short survey. The information it will yield will be valuable in assessing a statewide picture of how local agencies are voluntarily addressing climate change at the local level.

The survey is the first of its kind and the results will be used to develop tools and resources to better assist local agencies with climate change programs.

New 'Best Practices Framework' Available

The new version of CCAN's "Best Practices Framework" – a guide to climate action in 10 climate leadership opportunity areas – has just been released and may be viewed at www.ca-ilg.org/bestpractices.

"Best Practices" may be used to develop specific programs to reduce greenhouse gas emissions or may be incorporated into broader climate change-related planning.

ILG is the nonprofit research arm of the League of California Cities and the California State Association of Counties.

Green Purchasing Workshop Offered by U.S. Communities

The League of California Cities, along with U.S. Communities and the California State Association of Counties (CSAC), will present a Green Purchasing Workshop in Sacramento on July 16.

This is the seventh and final regional workshop designed to help local officials gain knowledge from local and national experts about green purchasing best practices and the tools they need to successfully achieve their cities' green purchasing goals. The seminar is free and includes a boxed lunch.

Seminar Details
Date: Wednesday, July 16, 2008
Time: 9 a.m. – 4 p.m.
Location: CSAC Conference Center, 1020 11th Street, Sacramento, CA 95814

Advanced registration is requested so appropriate lunch arrangements can be made. For more information or to register, please contact Laura Li at lli@counties.org or (916) 327-7500 ext. 560.

Hundreds of California cities use U.S. Communities for efficient and cost-effective purchasing, including the purchase of a wide range of green products. For more information about U.S. Communities, visit www.uscommunities.org.

U.S. House Passes Mortgage Relief Legislation
Bills Now Go to Senate

Cities across the nation achieved a major victory on May 8 when the U.S. House of Representatives passed HR 3221, The American Housing Rescue and Foreclosure Prevention Act, and HR 5818, The Neighborhood Stabilization Act. Both bills would help homeowners avoid foreclosure and ease the burden of vacant housing on cities and towns.

The National League of Cities (NLC) worked actively with House leadership to craft and advance this legislation to help cities respond to the home foreclosure crisis, and strengthen and stabilize the housing market.

HR 3221 would stabilize and strengthen the declining housing market by authorizing up to $300 billion in new federal mortgage loan guarantees. The guarantees would help at-risk borrowers with adjustable rate mortgages keep their homes by helping them refinance into federally-insured conventional mortgages.

HR 5815 would direct $7.5 million in federal grants and $7.5 million in federal loans to the states to be used by state, county and local governments and nonprofit organizations to stabilize neighborhoods distressed by rising rates of vacant housing caused by foreclosure. The House also passed an amendment that would direct the grants and loans authorized under the bill to go directly to local governments heavily affected by foreclosure.

The bills will now be heard in the Senate. Although they passed the House with strong bipartisan support, with nearly 40 Republicans joining Democrats on the two bills, the measures did not gain veto-proof majorities. As a result, the Senate may choose to scale the bills down to levels more in line with President Bush, who threatened to veto the House-passed legislation.

A complete description of the legislation may be found in the May 12 issue of the NLC's *Nation's Cities Weekly*, available at www.nlc.org.

Find a Bill, Legislator, 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.