League of California Cities
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LEGISLATION AND POLICY AFFECTING CALIFORNIA CITIES

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SPECIAL BUDGET UPDATE

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STATE BUDGET DEAL APPEARS CLOSER, CITY FUNDS REMAIN IN JEOPARDY

Legislative leadership and Gov. Arnold Schwarzenegger, also known as the Big Five, met multiple times this week to attempt to resolve the state's deficit. The budget gap is now estimated at $26.3 billion. While the leaders say they are close, in the absence of a final agreement, the remaining legislators returned to their districts for the weekend. Of critical importance to cities is that local government funding remains "on the table" and is extremely vulnerable through a variety of irresponsible and illegal budget proposals and scenarios. In an article that appeared in today's *Sacramento Bee* it is being reported that "California cities and counties will take a multibillion-dollar hit to help close the state's massive budget gap."

Reports from the Big Five meetings are imprecise and inconsistent. There are however three main areas that continue to threaten the viability of local governments:

- Highway User Tax Account (HUTA) raid;
- Redevelopment Agency funding seizures; and
- Proposition 1A loans.

These three items total $5.4 billion.

Take Action NOW to SAVE YOUR CITY!

ACTION: Call your Assembly Member and Senator at their district office TODAY and urge them to oppose all proposals that will devastate city services by stealing local gas tax and redevelopment funds, and borrowing property tax revenues when repayment is in doubt.
For more, see Page 2.

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HERE'S WHAT'S AT STAKE…

HUTA Grab

The proposed $1.7 billion HUTA gas tax grab is part of the potential budget deal. This proposal includes a seizure of $986.3 million of city and county HUTA funding in FY 2009-10, and an additional $750 million for FY 2010-11 to pay for transportation debt services.

Multiple Redevelopment Proposals

The Big Five are currently discussing three illegal proposals related to redevelopment funds. The combined hit is $1.7 billion.

- A two-year $350 million annual redevelopment agency (RDA) funding seizure.
- A one-year $1 billion ERAF transfer for FY 2009-10. Under this proposal, agencies could borrow from existing balances in their low- and moderate-income housing funds. Agencies that do not or could not make their Educations Revenue Augmentation Fund (ERAF) payments would have to suspend all activities and begin setting aside 30 percent of tax increment for housing. Agencies making the payments would receive a one-year extension on their redevelopment plan limits for receiving tax increment.
- An alternative proposal sponsored by the city of Industry, that faces both political and legal challenges, would allow RDA project timelines to be extended for 30-40 years. In exchange, RDA's would be required to give the state 10 percent of revenues which the state would securitize. There are a variety of hybrid versions of this proposal also being discussed. (If this proposal is accepted, the concept is to limit other budget hits to local government.)

Proposition 1A Loan

Cities are still threatened by a Proposition 1A loan despite earlier statements by Legislators coming out of the June Budget Conference Committee that they "saved" local governments from taking property taxes. A property tax loan puts cities in a precarious position. If the state borrows property taxes, it will be extremely challenging for cities to secure financing to securitize the loan against the state's repayment promise. State Treasurer Bill Lockyer has warned that Wall Street is poised to downgrade the state's bond rating again. This would mean that it will be even more expensive for cities forced to securitize a Prop. 1A loan. Moreover, legislative borrowing only compounds the state's budgetary problems by "kicking the can down the road."

Next Steps

With all indications suggesting that a deal may be near and the legislature poised to balance its budget on the backs of local government, it is imperative that city officials contact their legislators and the Governor TODAY and share how borrowing and/or taking local revenues will impact their communities. PLEASE ACT NOW!
