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

PRIORITY FOCUS

LEAGUE OF CALIFORNIA CITIES

IN THIS ISSUE:

March 14, 2008
Issue #11-2008

BUDGET SUBCOMMITTEES REVIEW LEGISLATIVE ANALYST'S PROPOSAL TO USE CITY AND COUNTY SUBVENTIONS TO PAY FOR PROBATION REALIGNMENT PROGRAM

Wednesday, March 12 was a busy day for budget activity with both the Senate Budget Subcommittee #4 and the Assembly Budget Subcommittee #4 meeting to discuss aspects of the Legislative Analyst's Office (LAO) proposal that would have a direct impact on city revenues.
For more, see Page 2.

●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●

GOVERNOR CALLS MEETING ON INFRASTRUCTURE AND OPPORTUNITIES FOR PUBLIC-PRIVATE PARTNERSHIPS

Earlier this week, Gov. Arnold Schwarzenegger met with the League and public and private sector representatives with a stake in improving California's public infrastructure. The March 12 meeting focused on the state's infrastructure needs and included a discussion with examples of public and private partnerships on key infrastructure projects in California. *For more, see Page 2.*

●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●●

CALIFORNIA CITY OFFICIALS DELIVER THEIR MESSAGE TO WASHINGTON

More than 220 California city officials joined thousands of other city officials from across the nation for the 2008 National League of Cities (NLC) Congressional Cities Conference, March 8-12. This is an annual event aimed at communicating with U.S. senators and Congressional representatives and policy experts about the direct impact of federal decisions on local government. *For more, see Page 3.*

‘Budget Subcommittees’ Continued from Page 1…

Senate Subcommittee #4

The Senate Subcommittee #4 focused primarily on LAO’s proposal to “realign” responsibility for supervising 71,000 parolees with current convictions for non-serious, non-violent drug and property crimes to local probation departments who already supervise similar offenders.

Past realignment proposals of other programs (mental health) have worked with some success. This LAO proposal however, is victim to the tendency in that office to take money from cities to pay the costs of some other program. In particular, the LAO proposal shifts $178 of Proposition 172 sales tax revenue that now goes to cities to help pay for the program.

The proposal would also shift $188 million from water and waste district property taxes to the program along with $130 million in revenue that now goes to the Department of Motor Vehicles to administer vehicle license fee collections.

Senator Mike Machado (D-Linden), subcommittee chair, pressed the Department of Finance representative about the quality of the Governor’s proposal to release 20,000 inmates with non-serious, nonviolent drug and property crimes from state prisons. The LAO realignment proposal is intended to provide probation services to assist the transition of these 20,000 inmates into local communities.

The League testified that the LAO proposal has a policy disconnect because it would take money from cities currently dedicated to front-line law enforcement and public safety programs and give it to counties for probation services. It is highly likely that if 20,000 prisoners are released into local communities, there will be a significant and direct impact on local law enforcement.

The League suggested that other revenue sources should be explored instead. Witnesses from special districts that provide water and sewer services also voiced their strong opposition to taking property taxes from their jurisdictions and using it to pay for probation services.

Assembly Subcommittee #4

The Assembly Budget Subcommittee #4 hearing examined the aspects of the LAO proposal aimed at cutting state subventions for local law enforcement programs, including the realignment proposal.

The additional programs targeted for cuts by LAO include the Community Oriented Policing Services (COPS) program that sends $119 million to cities and counties for front-line law enforcement personnel, the juvenile justice program for counties ($119 million) and the booking fee reimbursement for cities to pay county jail booking fees ($38 million).

LAO’s proposals to cut city money for all of these programs met heavy opposition from local government, including the local government law enforcement community.

It was also clear that city officials had done a good job of contacting members of the subcommittee about the proposals. Most members of the subcommittee expressed serious objections to the funding proposals recommended by the LAO.

‘Infrastructure’ Continued from Page 1…

David Crane, special advisor to the Governor on jobs and the economy and Dale Bonner, secretary of Business, Transportation and Housing facilitated the meeting with the Governor.

With an opportunity to present its priorities to the Governor, the League made the following recommendations:

Expedite Proposition 1B Money and Authorize Round II of Funding for Cities and Counties. The initial allocation of Prop. 1B money is just starting to flow to cities, but future appropriations could be expedited for the remaining Local Street and Road funds. Cities can put this money to work immediately since there is a tremendous unmet need in the local transportation system.

The state should authorize the balance of the funding to be committed ($1.05 billion) and authorize an additional $2 billion to cities and counties.

Green/Infill Infrastructure. The infill infrastructure program in the Prop. 1C housing bond successfully responds to infill housing and infrastructure needs of local communities. This money enables local governments to approve transit-oriented development and the infrastructure to support development such as: transit capital projects, storm water management and treatment systems, and wastewater management systems. These projects tie directly to the goal of AB 32 (2006) to lower green house gases.

The League supports a bold financing plan with voter approval of a bond for green/infill infrastructure, including schools served by transit and other infrastructure to better connect jobs and housing. Possible Cost: $10 billion.

Water Quality Infrastructure Investments. Cities and counties across California are confronting a dramatic need to upgrade wastewater and storm water infrastructure to meet new treatment requirements.

There is a rapidly growing need for the state to issue a bond to finance loans and grants to urban and rural cities, large and small, to upgrade their existing wastewater collection and treatment infrastructure and to finance new storm water management and treatment infrastructure to prevent continued pollution of our streams, rivers and ocean. Possible Cost: $5 billion.

Reduce Voter Threshold for Infrastructure Projects. The League recognizes that it is not feasible for the state to be the only source for infrastructure funding.

A proposal to give local governments the same 55 percent voter-approval threshold that has been given to schools for capital projects would help effectively address California's infrastructure needs. This will also engage local residents in the civic dialogue about the urban development of their community.

Stabilize Transit Operations. Construction of transit-oriented development is a goal that is consistent with the parameters of AB 32 (2006), but it can't be done unless transit has sufficient operating funding.

Some recognition of the need for transit operations revenues is an important piece of a comprehensive transportation financing plan.

Caltrans/Local Project Streamlining Task Force. Create a state and local task force to develop a recommendation to streamline the CalTrans project permit process. This is currently a very cumbersome process which adds delays to worthwhile projects as well as significant cost increases as construction costs rise.

Next Step

The March 12 meeting was part of an on-going effort by the Schwarzenegger Administration to begin a serious, comprehensive infrastructure program for California to handle the tremendous backlog in public facility maintenance and the reality that those facilities must accommodate a constantly growing population.

The League expects to be engaged with the Administration in future discussions about California's infrastructure needs and will provide updates on its Web site at www.cacities.org/infrastructure.

‘NLC Congressional Cities Conference’ Continued from Page 1…

During the NLC conference, 3,500 city officials attended sessions on a variety of federal issues critical to cities including infrastructure investment, public safety, energy, climate change, transportation and the mortgage crisis. The California delegation was led by Jim Madaffer, League president and San Diego city council member and Judy Mitchell, League second vice president and Rolling Hills Estates council member.

NLC President and Madison, Ala. Council Member Cynthia McCollum unveiled the *American Cities 2008* NLC’s campaign to bring awareness of local issues to the presidential campaign. A video shown during the opening general session featured elected officials from across the country posing city-related questions to the candidates.

Ron Loveridge, mayor of Riverside, past president of the League and current NLC second vice president asked in the video: "In the late 50s, President Eisenhower proposed a federal highway system. Since then, we've not had an overarching look at transportation -- but more than transportation, our entire national infrastructure. What do you propose to do to rebuild America? How do we build America's future?"

Visit www.americancities08.org for additional information about American Cities 2008.

Congressional Meetings and Policy Briefings

The League’s officers met with Senators Dianne Feinstein (D-CA) and Barbara Boxer (D-CA), Speaker Nancy Pelosi (D-8th) and Representative Laura Richardson (D-37th) and other members of the California Congressional Delegation to brief them on the League’s federal priorities.

From left to right: Ron Loveridge, mayor of Riverside, past president of the League and current NLC second vice president, Sen. Dianne Feinstein, Judy Mitchell, League second vice president and Rolling Hills Estates council member, Dave Allan, La Mesa council member and Jim Madaffer, League president and San Diego city council.

In a long meeting with Sen. Feinstein, the League’s officers discussed issues ranging from the newly authorized Energy Efficiency and Conservation Block Grant (EECBG) program to S. 456, the senator’s gang abatement legislation.

Sen. Boxer commented to the League about California’s position as a leader on many fronts including climate change. She said that she understood the importance of expanding infrastructure investments to support transportation. The mortgage crisis is a personal issue to the senator and she emphasized the need to address it immediately.

During the conversation with Sen. Boxer, League President Jim Madaffer stressed the need for a national container fee to help fund California's infrastructure used to transport goods outside the state.

Sen. Barbara Boxer with the California Delegation.

In April, the League's policy committees will review federal container fee legislation, H.R. 5102, the ON TIME Act (Our Nation's Trade, Infrastructure, Mobility, and Efficiency Act). Introduced earlier this year by Rep. Ken Calvert (R-44th), the legislation would implement federal fees on all shipments in and out of the country's ports, airports and border crossings to generate revenue to fund transportation projects on freight routes.

League and NLC leadership met privately with Speaker Nancy Pelosi (D-8th) prior to her full conference address. The speaker expressed her commitment to public safety funding and emphasized her background in local government.

Speaker Pelosi's father spent 22 years as a public official and was a Baltimore city council member and mayor. One of her brothers also served as Baltimore council member and mayor. This family history, she said, instilled in her an understanding of the significant role that city officials play as leaders of their community and the daily challenges they face in providing services to their residents.

The speaker talked at length about the critical need of upgrading the nation's infrastructure system as well as promoting renewable energy to protect the environment and support high quality American jobs.

In a separate meeting with Rep. Richardson, the League's officers focused on the need for federal infrastructure investment. The congresswoman pointed out during the conversation that 64 percent of goods delivered into the ports of Long Beach and Los Angeles are bound for destinations outside of California.

From left to right: Jim Madaffer, League president and San Diego city council, Rep. Laura Richardson, Chris McKenzie, League executive director and Fran Mancia, League Partner.

A former Long Beach council member and League alternate board member, Rep. Richardson credited much of her success in adjusting to Congress to her local government experiences and said she uses this to inform her decision-making at the federal level.

The League's legislative staff developed five issue papers on the League's 2008 federal priorities for the California delegation to use in their meetings with members of Congress. The papers focused on the following:

- Addressing climate change;
- Responding to foreclosures and California's continuing need for affordable housing;
- Transit oriented development;
- Goods movement transportation investment for national economic stimulus; and
- Protecting public safety in California.

The League's federal priority issue papers used during the meetings are available at www.cacities.org/federalresources.

The NLC's 2008 Legislative Priorities can also be found online at www.nlc.org.

Emphasis on Climate Change

The League and NLC are urging Congress to support the full funding ($2 billion per year 2008-2012) of the EECBG program authorized in H.R. 6, the Energy Independence and Security Act of 2007.

For additional information on H.R. 6 please see the Feb. 29 issue of *Priority Focus* at www.cacities.org/priorityfocus.

In California, the League is sponsoring AB 2176 (Caballero) to aid in the distribution of federal funds to non-entitlement cities and counties through the EECBG program. This legislation would establish a mechanism through which funds received by the state would then be passed on to smaller cities (population under 35,000) and counties (populations under 200,000).

The California Congressional Delegation hosted a roundtable on energy. With supporting green and sustainable cities a 2008 League priority, the roundtable provided an important venue for

California city officials to speak with their representatives about what the federal government is doing to support GHG reduction.

Representatives David Dreier (R-26th), Lois Capps (D-23rd), Jane Harman (D-36th), Ken Calvert (R-44th), Elton Gallegly (R-24th) and Mary Bono Mack (R-45th) participated in the roundtable. The event closed with briefings by Greg Dotson, chief environmental council of the House Oversight and Reform Committee and Steven Chalk, deputy assistant secretary for renewable energy in the Office of Technology Development Energy Efficiency and Renewable Energy.

Next Step

The League will continue to work with NLC and through the efforts of its Washington, D.C. office to continue to advance these and other legislative priorities as well as respond to federal legislation impacting cities.

Visit www.cacities.org/federalresources for more information about the League's federal work.

More Cities Receive Prop. 1B Local Street and Road Funds

The Department of Finance (DOF) announced this week that an additional 104 cities will receive their FY 2007-08 Proposition 1B Local Street and Road funds on Friday, March 14. The first 46 cities received their Prop. 1B funds on Feb. 15. A total of 150 of California's 478 cities have now received their allocation for this fiscal year for a total of $154 million of the $550 million appropriated for cities in FY 2007-08.

A city-by-city list of released funds can be found on the League's Web site at www.cacities.org/infrastructure.

Relief for Cities Affected by the Spike in Variable Rate Interest Costs

Many cities have recently seen interest on their variable rate debt jump significantly from the recent turmoil in the credit market. California Communities offers immediate relief through its new Liquidity Notes program for auction rate securities and variable rate demand obligations (ARS/VRDO).

California Communities is the financing authority co-sponsored by the League and the California State Association of Counties (CSAC). The Liquidity Notes program provides assistance to issuers affected by the current volatile markets for ARS/VRDOs and the resulting rate increases. This program is exclusively for cities, counties, and special districts in California.

Goals of the Liquidity Notes Program

- Speed – liquidity notes can be issued within a matter of weeks
- Availability – open to a wide variety of issuers and types of issues
- Simplicity – minimal time and effort on the part of issuers to participate
- Low cost – provides substantial reduction in interest costs for at least one year

What is the Liquidity Notes Program?

- A financing program developed by Orrick, Herrington & Sutcliffe LLP and sponsored by California Communities to provide immediate relief to local agency budgets caused by bond insurer downgrades and the resulting failures in the ARS/VRDOs markets;

- Provides a temporary solution affording time for local agencies to undertake refundings, restructurings and/or remarketings of their outstanding ARS/VRDOs in a more reasonable time frame and a more orderly fashion;

- Does not displace the local agency's existing team of underwriters, financial advisors or bond counsel;

- Designed to keep existing bond insurance policies in place to preserve potential future value of bond insurance premiums already paid; and
- Local agency participants would trigger mandatory tender of their bonds for purchase by California Communities via notice to their bondholders of interest rate mode change to an approximately one-year fixed-term interest rate.

Program Advisors

California Communities has assembled a team of firms that are leaders in California public finance.

Bond and Disclosure Counsel: Orrick Herrington & Sutcliffe LLP
Financial Advisor: Public Financial Management, Inc.
Underwriters (in alphabetical order): Goldman Sachs, Merrill Lynch, and Morgan Stanley

Additional Information

City officials interested in participating in the Liquidity Note program should visit California Communities online at www.cacommunities.org.

Please contact James Hamill, Program Manager, at (925) 933-9229, ext. 216 with further questions.

California Communities Offers Cities Short Term Cash Flow Financing

Economic realities are driving cities to seek solutions to cash flow problems. The California Communities TRAN (Tax and Revenue Anticipation Note) program provides an easy and cost effective way for local governments to access the capital markets by providing funds for short term cash flow deficits that occur due to the normal timing difference of cash receipts and cash disbursements.

Program Accomplishments

- Over $7 billion in funds have been provided to more than 150 local governments since 1993; and
- Borrowings have ranged in size from $100 thousand to $320 million.

There is no cost to enroll in TRAN. The enrollment form can be found on the California Statewide Communities Development Authority Web site at www.cacommunities.org.

The California Communities Web site (www.cacommunities.org) has information for city officials interested in TRAN or other programs and services designed to benefit local governments.

For more information on TRAN, contact Terrence Murphy of California Communities at (925) 933-9229, ext. 223.

California Communities is co-sponsored by the League and CSAC.
