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

PRIORITY FOCUS

LEAGUE OF CALIFORNIA CITIES

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GOVERNOR OFFERS "AUGUST REVISE" COMPROMISE BUDGET PROPOSAL

The Governor announced a special press conference on Wednesday, Aug. 20, to unveil what the Department of Finance is calling an "August Revise." At the time of the press conference, the state was 51 days into its new fiscal year operating without a budget. The Governor said that his compromise budget includes additional cuts, new revenues in the form of a temporary sales tax increase, budget reform, and expansion of the rainy day fund as well as economic stimulus mechanisms. *For more, see Page 2.*

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ILG 4TH ANNUAL CONFERENCE LUNCHEON SYMPOSIUM FOCUSES ON CALIFORNIA DEMOGRAPHICS

USC Professor Manuel Pastor will speak on the changing demographics in California at the Institute for Local Government (ILG)'s Luncheon Symposium during the League's 2008 Annual Conference on Sept. 25 in Long Beach. *For more, see Page 3.*

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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.

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City leaders were again pleased to hear the Governor reiterate his strong belief that it is "unwise" and irresponsible to balance the budget by borrowing local government or transportation revenues. Many city officials voiced dismay however, about a surprising proposal to divert redevelopment tax increment revenues for three years to fund schools instead of building sustainable neighborhoods and supporting the state's economic recovery through redevelopment projects as provided in the state constitution.

In brief, the Governor proposes:

- **No borrowing** of city and county Proposition 1A or Prop. 42 funds;
- **Restoration of COPS and Booking Fees** to the Governor's May revise level;
- **Three year Redevelopment ERAF** shift of 5 percent or $225 million per year, whichever is greater;
- **Transit funding at essentially** the May revise level with additional revenues deposited in the general fund due to increased motor fuel tax collections;
- **Three year, 1 percent sales tax increase,** except for motor fuels. After three years, the sales tax would be reduced by 1.25 percent permanently, <u>including</u> the tax on motor fuels;
- **Major program reductions** ($2 billion deeper than the Budget Conference Committee proposed) for a total of $9 billion in reductions in base (or workload budget) spending below the previous year; and
- **Budget Reform** to strengthen various elements and expand the required size of the Prop. 58 reserve fund. In addition, the Governor would have mid-year budget reduction authority (up to 7 percent) when revenues decrease.

Following the press conference on Wednesday, the Governor joined a conference call Finance Director Mike Genest held with local government representatives. He thanked the callers and asked for their support of his budget proposal, telling them that it's imperative that local government leaders push loudly against proposals that include local government or transportation borrowing.

In a conference call yesterday morning (Aug. 21), members of the League board of directors were briefed on the proposal. Board members were unanimous in their praise for the Governor in putting a new budget blueprint on the table that avoids borrowing and spreads the pain.

League Executive Director Chris McKenzie commented, "The League board believes the Governor has once again shown all the attributes of true leadership in trying to lead state government out of its addiction to borrowing and toward achieving long-term budget reform."

McKenzie added, "The League board believes strongly that the Governor's new budget proposal deserves our careful consideration. We have already communicated our appreciation for his steadfast opposition to borrowing, his tough stand on spending and his commitment to budget reform. All of these are critical to our state government's fiscal reform.

"We also have shared our surprise about an apparently unconstitutional proposal to seize local funds for redevelopment projects that are so vital to the state's economic recovery and sustainability. We will work closely with the Administration to support the Governor's efforts to pass a budget that is truly balanced with state, not local, funds. This Governor knows and cares about strong cities and reducing greenhouse gas emissions, and he has been an outstanding partner of local governments since the first day he was elected."

California Cities on Forefront of Budget Battle

It has been an extremely busy week for California's cities as momentum builds with the budget battle. More than 115 cities have now passed resolutions objecting to borrowing local government or transportation revenues, calling such a proposal irresponsible. Press coverage of these resolutions and editorials on the negative impacts of a potential borrowing solution has been mounting. The Governor and Senate Pro Tem Don Perata remain firmly opposed to borrowing these funds; however other lawmakers from both parties appear to be seriously considering this option.

What's at Risk for Cities and Taxpayers If the Legislature Insists on Borrowing

Notwithstanding the strong opposition of the Governor and the Senate Pro Tem , rumors persist that a package of multiple borrowing proposals will be offered as part of a budget package — perhaps in the next day or so. Any proposal to incur more operating debt by borrowing from a wide range of local government and other voter approved protected funds is fraught with interest rate and related securitization problems.

The League was recently advised that the state would have to repay local agencies at a constitutionally set interest rate of 7 percent per year. However, a local agency that can't afford to wait for repayment by the state could be forced to securitize the state's repayment obligation, raising the cost to the state or the local agency (and taxpayers) by an additional 7-12 percent. The cost of securitizing receivables from the state has risen dramatically since the 2004 Vehicle License Fee (VLF) gap loan securitization because of the melt down in the bond insurance industry and turmoil in the municipal bond market.

State's Economic Recovery At Stake If the Redevelopment ERAF Shift Occurs

City officials understand that redevelopment may be California's most important program for creating high quality construction jobs, making investments that help reduce greenhouse gas emissions, and in supporting the economic recovery that is so vital to the long-term fiscal health of our state government.

The state reaps tremendous income tax, sales tax and property tax benefits from redevelopment projects. Reducing redevelopment funding is the political equivalent of a farmer eating his own seed corn. You may be ravenously hungry, but you dare not eat it because you will have nothing the next year.

What City Officials Can Do

City officials should contact the Governor, (916) 445-2841, to thank him for his partnership with cities and his understanding of the important role cities play in providing public safety and other services to residents. Please acknowledge the Governor's his continued strong stance on protecting local government revenues that goes back to 2004 and the passage of Prop. 1A with 84 percent of the vote. City officials with concerns about the RDA impacts should also share this with the Governor immediately.

Phone instructions for calling the Governor:

- Call (916) 445-2841
- Press #1 for English
- Wait for the menu options
- # 1 Address, Fax Number
- #2 to voice an opinion on legislation
- #5 to voice an opinion on hot issues
- #6 to speak to a representative

In addition, city officials should also contact their legislators and explain the likely impacts of budget cuts in their city (with specifics). Ask legislators to work with their colleagues and the Governor to produce a budget that avoids borrowing and seizing local redevelopment funds that are critical to our state's economic recovery.

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By 2012, naturalized adults, naturalization-eligible immigrants, and young-adult citizen children of immigrants could represent 7.7 million voters in California, or 29 percent of the electorate. Pastor, a professor in USC's departments of geography and American studies and ethnicity, will present his perspectives on the state's changing demographics and the opportunities and challenges they present for local officials.

Luncheon Registration

To register online for both the conference and luncheon, please go to http://events.cacities.org/cgi-shl/TWServer.exe/EREG:LISTEVENT:08AC0924.

After Sept. 5 register by phone or e-mail by contacting Carmen Pereira at (916) 658-8208 or cpereira@ca-ilg.org.

Please visit ILG's symposium Web page for additional information. (http://www.cacities.org/resource_files/27021.08symposiumwebpage.pdf)

Conference Session on Demographics

The luncheon will be followed up on the afternoon of Sept. 25 with a session titled "Immigrant Integration and Engagement: Ideas & Resources for Local Leaders." Participating panelists will discuss opportunities, challenges and resources for local officials to support immigrant integration and engagement in their cities.

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