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IN THIS ISSUE:

NEW STATE FISCAL YEAR BEGINS WITH BUDGET OUT OF BALANCE CITY FUNDS REMAIN AT RISK

July 1 came and went without a resolution to the state budget crisis. Democrats, Republicans, and Gov. Arnold Schwarzenegger now remain staked out in scattered positions. Little clarity exists on how a political and fiscal chasm – appearing at times as wide as the Grand Canyon – can be bridged. City funding remains vulnerable through a variety of pending budget proposals and scenarios. Legislative leaders and Governor continue discussions, while legislators headed home for the holiday weekend. *For more, see Page 2.*

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INVITATION TO LOCAL GOVERNMENT SUMMIT ON GOVERNANCE AND FISCAL REFORM JULY 17-18, SACRAMENTO

City officials are invited to attend and participate in a historic summit meeting of city, county and school officials in Sacramento, July 17-18 at the Hyatt Regency to discuss and debate the emerging proposals to reform California's governance and fiscal systems. *For more, see Page 3.*

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LETTERS NEEDED OPPOSING FEDERAL LEGISLATION LIMITING LOCAL TAXING AUTHORITY OVER MOBILE PHONES

California cities, which are already facing historic budget deficits and the potential of additional state raids on local funds, may be surprised to learn some members of Congress are actively pushing legislation that would further limit local revenue authority. *For more, see Page 4.*

'Budget' Continued from Page 1…

With the Governor promising to veto any budget proposals that did not address the entire projected $24.3 billion deficit, Senate Republicans withheld votes for a three-bill package designed to score budget savings in the FY 2008-09 and provide temporary cash flow adjustments to forestall the need for the State Controller to issue registered warrants (IOU's). One of the measures that failed passage was a proposal to attempt to work around the recent successful redevelopment lawsuit and take $350 million from redevelopment agencies.

Because of the failure to adopt a comprehensive solution prior to the beginning of the fiscal year, the Governor says that (due to complicated education funding formulas from Proposition 98) the size of the state deficit has grown by $2 billion. Some Legislative estimates, however, project that the deficit may be as much as $7 billion higher.

All this means that for the first time since 1992, the Controller is now scheduled to issue IOU's for various state obligations that are paid out of the general fund. IOUs will be paid to private businesses, taxpayers and local governments (primarily counties). Because cities receive very little from the state's general fund, it is not anticipated that this will have a substantial impact on cities.

The Controller's Web site has additional information on IOUs.
http://www.sco.ca.gov/eo_news_registeredwarrants.html

While the details of state budget proposals can be confusing, the choices remain simple: it will take more cuts, new taxes, or a combination of the two and/or the use of borrowing. The Governor and Republicans say they won't support tax increases, and the Democrats –up to this point—say that the $11 billion in cuts they have already agreed to are already decimating the social safety net too far, so they won't agree to further program reductions.

The Democrats also voted to support a revised majority vote budget proposal that did not include the previously proposed $2billion in new taxes

Proposed HUTA and RDA Grabs Not Yet Approved

On a positive note for local governments, the Assembly did not take up the bills passed by the Senate that include the three-year $350 million annual redevelopment agency (RDA) funding seizure or the proposed $1.7 billion Highway User Tax Account (HUTA) gas tax grab. The three bills in play with the RDA and HUTA takes are:

- SB 80 includes the one-year RDA grab of $350. The Assembly passed it last week but the Senate failed to pass it Wednesday night. It is unclear whether this bill can be taken up again now that the 2008-09 fiscal year has expired. http://info.sen.ca.gov/pub/09-10/bill/sen/sb_0051-0100/sb_80_bill_20090625_amended_asm_v98.html

- SB 3x 29 contains a three-year take of $350 RDA funding. It passed the Senate Wednesday night as part of the Democratic majority vote package (the Governor promised to veto) but needs to be approved by the Assembly. http://info.sen.ca.gov/pub/09-10/bill/sen/sb_0001-0050/sbx3_29_bill_20090629_amended_sen_v98.html

- AB3x 4 contains the $1.7 billion two-year HUTA grab. The Senate passed it Wednesday night as part of the Democratic majority vote package (the Governor promised to veto) but needs Assembly approval. http://info.sen.ca.gov/pub/09-10/bill/asm/ab_0001-0050/abx3_4_bill_20090629_amended_sen_v96.html

League Maintains Opposition to Borrowing—Local Funds at Risk

Of great concern for cities is the fact that the longer the state goes without a budget and the larger the deficit grows, the more at risk are city funds. The Governor's spokesperson, Aaron McLear made an erroneous statement on Tuesday, June 30, by telling reporters that California cities are 'okay' with the state borrowing local property taxes to balance its budget. The League has maintained throughout the past months that it's reckless and irresponsible to balance the budget with borrowing or seizing local funds. It will devastate city services and only "kicks the can down the road."

In the news release issued by the League Tuesday afternoon, League Executive Director Chris McKenzie said the following: "Contrary to recent statements from the Governor's office, California cities remain adamantly opposed to the state borrowing local government property taxes. In many cities, critical services have already been cut to the bone as a result of the recession. How would anyone think that cities would support a loan to the state when they are making such deep cuts in vital local public safety and other services? We also were surprised to hear Mr. McLear say last Thursday that borrowing from cities is not 'kicking the can down the road.' Won't the state's structural deficit be worsened by borrowing today and having to repay in four years? The obvious answer is it will."

Cities are in a precarious position because 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 rating firms are poised to downgrade the state's bond rating again. This news means that it will be even more expensive for cities forced to securitize a Proposition 1A loan.

Transit Lawsuit

One positive development for cities this week was the Third District Court of Appeal decision that found the Legislature violated the constitution when it seized public transportation funds for general fund relief. This decision bolsters the League's legal position on the illegality of a gas tax raid and may make lawmakers reconsider before trying to take local gas taxes. It also shows that local transit agencies are entitled to get money for their operations.

The news wasn't all positive because if this decision is upheld on appeal to the California Supreme Court, raids on other local funds will be more vulnerable.

The League has posted a copy of the decision online.

http://www.cacities.org/resource_files/28168.Transit Decision 3rd District Court of Appeal 06-30-09.pdf

Governor Holds News Conference on Budget Crisis

During a news conference on Thursday, July 1, the Governor said he is imposing a third state furlough day and declared a state of fiscal emergency pursuant to Proposition 58 to call a special session of the Legislature. He reiterated his vow to veto any budget bills that fail to solve the whole budget deficit and said that he won't be signing other legislation until the state has a budget.

The Governor promised during the news conference that the state will have the cash on Oct. 1 to repay the IOUs. He told reporters that he is proud of California even in the midst of the crisis. The Governor reminded reporters that there are 30 other states that are starting the new fiscal year without a budget. http://gov.ca.gov/press-release/12633/

Next Steps

The League is monitoring the budget very closely and will continue to alert members through Calls to Action. It's important for city officials to be in contact with their regional public affairs manager to take action when necessary to help protect city funds.

'Summit' Continued from Page 1…

Co-sponsored by the League through the City County School Partnership, the event is a great opportunity to help influence the future direction of the state. The summit was originally proposed by the League's board of directors.

Summit participants will:

- Hear from experts;
- Consider whether we need a constitutional convention; and
- Work with peers to create a plan for reform local governments need.

Details

Registration for the summit is $80 for elected and senior appointed city and county officials and school board members, $120 for others.

Register online at www.cacities.org/events. County officials should register through CSAC and school board members through CSBA.

Hotel reservations can be made through Hyatt. Call (800) 233-1234 and ask for the special Local Government Summit room block rate of $99 (reduced from $124) plus taxes for the night of July 17.

'HR1521' Continued from Page 1…

HR 1521 (Lofgren, D-CA) and S 1192 (D-OR) are two bills that purport to promote "fairness" and seek to prohibit new state or local "discriminatory taxes" on the wireless industry. In effect, however, both of these measures provide a special carve out exemption by imposing a five-year moratorium on any new taxes on this industry.

Approximately 150 California cities currently impose local voter approved utility users taxes, which typically apply to local utility services, which often include water, sewer, electricity and telecommunication services. Collectively, these taxes provide $1.7 billion in revenue funding for public safety and other critical local programs, of which about half comes from telecommunications services.

While the bills are structured to preclude any new taxes on wireless services, they may be interpreted to limit efforts of California cities to modernize their existing ordinances to keep pace with changing technology. By limiting the options of any community that may be considering adopting a local utility user's tax, the bills will compound the difficulties faced by California cities.

Mobile telecommunications is one of the fastest growing and successful industries in the world. If the industry is successful in obtaining a carve-out from taxation, this could open the floodgates for Congress to grant additional exemptions to other industries who will question why they have been left out.

The League remains concerned that these bills are gaining momentum. Supported by the influential telecommunications lobby, HR 1521 has already picked up 132 co-sponsors, and S 1192 has six.

In addition to Rep. Zoe Lofgren, the following members of the California Congressional delegation are listed as co-sponsors of HR 1521: Rep. Lois Capps (D-23), Rep. Jim Costa (D-20), Rep. Daniel Lungren (R-3), Rep. Doris Matsui (D-5), Rep. Kevin McCarthy (R-22) Rep. Joe Baca (D-43), Rep. Brian Bilbray (R-50), Rep. Mary Bono Mack (R-45), Rep. Dennis Cardoza (D-18), Rep. Anna Eshoo (D-14), Rep. Darrell Issa (49), Rep. George Radanovich (R-19), Rep. Lucille Roybal-Allard (D-34), Rep. Edward Royce (R-40), and Rep. Jackie Speier (D-12).

The League encourages cities to contact their congressional representative on these bills.

A sample HR 1521 opposition letter can be found on the League's Web site at: http://www.cacities.org/resource_files/28166.Oppose HR 1521 Cell Tax Moratorium Bill sample.doc.

Sample S 1192 opposition letters for Sen. Boxer and Sen. Feinstein can also be found on the League's Web site at:

http://www.cacities.org/resource_files/28170.Oppose S 1192 Boxer.doc

http://www.cacities.org/resource_files/28173.Feinstien s 1192.doc

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American Clean Energy and Security Act Moves to the U.S. Senate

Last Friday, the U.S. House of Representatives voted 219-212 to pass HR 2454, legislation aimed at creating clean energy jobs, achieving energy independence, reducing global warming pollution and transitioning the U.S. into a clean energy economy. Authored by Reps. Henry Waxman and Edward Markey, HR 2454 includes a number of provisions that are designed to reduce greenhouse gas emissions including:

- A requirement that electric utilities meet 20 percent of their electricity demand through renewable energy sources and energy efficiency by the year 2020. This requirement applies to utilities that sell more than 4 million megawatt hours (MWh) of electricity to consumers. Based on 2007 information from the Energy Information Administration, approximately 21 public utilities produced more than 4 million MWh.
- A reduction of carbon emissions from major U.S. sources of 17 percent by 2020 and over 80percent by 2050 compared to 2005 levels.
- Investing in clean energy technologies and energy efficiency, including renewable energy ($90 billion in new investments by 2025) carbon capture and sequestration ($60 billion), electric and other advanced technology vehicles ($20 billion) and basic scientific research and development ($20 billion).

Amendments to HR 2454 include a provision to accommodate states, such as California, that have preexisting renewable electricity standards and authorization for the U.S. Department of Agricultural to establish a program governing the generation of offset credits from domestic agricultural and forestry.

Although the League agrees with the premise of the legislation, we continue to have two main concerns.

HR 2454 does not go far enough in assisting local government in efforts to mitigate the effects of global warming. The League unsuccessfully sought an amendment which would dedicate a portion of revenues generated by this legislation to support the Energy Efficiency and Conservation Block Grant (EECBG). The EECBG Program funded under the American Recovery and Reinvestment Act has been a significant help to local governments attempting to meet energy efficiency and climate change goals.

HR 2454 does not effectively deal with financial support for energy efficient transportation solutions. The transportation sector accounts for nearly one third of the nation’s greenhouse gas emissions and actions are being taken to increase fuel efficiency and decrease vehicle miles traveled. To this end, a dedicated funding source is needed if cities and towns are going to be able to create more sustainable communities while strengthening our economy.

The League will continue to monitor this important legislation and will provide further updates. HR 2454 will next be voted on by the Senate.

Federal Stimulus Funding Workshops Scheduled—Register Now!

With the state expected to receive more than $85 billion in federal stimulus funding in the next two years, the California Commission for Jobs and Economic Growth will be hosting conferences on how to transform California's share of federal stimulus funding into new jobs.

Conference organizers expect the events will include local, regional, state and federal experts from transportation, education, broadband, workforce training and energy. Held in collaboration with the Governor’s Recovery Task Force, the conferences are being designed to give stakeholders guidance on how local communities, including public agencies and private employers, can access some of California’s share of the stimulus funding.

The workshops are scheduled as follows:

- Central Valley, Wednesday, July 8 – California State University, Fresno
- Southern California, July 22 – Anaheim Convention Center
- Bay Area, Thursday, July 23 – San Jose State University

Registration Details

Registration is $20 and $30 for participants who also register for a boxed lunch.

To register for the Fresno conference, please visit:
http://www.acteva.com/booking.cfm?bevaid=185157

Observations on PERS Rates and Impacts of Pension Obligations on Local Budgets

Public agencies are expecting an increase in the cost of providing employees with CalPERS pension benefits because of the impact the challenging economy has had on the system. The June 15 issue of the PERS Public Agency Coalition's *Alert* included some observations on the situation that may be of interest to *City Advocate Weekly* readers. Instead of reprinting the entire piece, we are printing a selection of points that provide at least a partial answer to these pension questions that were made in the original article.

What is rate smoothing and is it working?

- …most pension plans utilize some sort of rate smoothing to mitigate swings in employer rates. PERS uses a 15-year smoothing policy, one of the longest in the industry…For purposes of calculating required employer contributions, investment gains and losses (i.e., changes in market value) are spread over 15 years. So the June 30, 2009 valuation would, in theory, reflect one-fifteenth of the investment losses from FY 2008-09 plus one-fifteenth of the gains or losses from each of the previous 14 fiscal years.

- PERS says that…its 15-year smoothing policy has worked exceptionally well. For the past four years, smoothing kept year-to-year changes in employer contribution rates within 1 percent of payroll. Any increases larger than that **were due to benefit increases.**

- …given a hypothetical loss [In PERS' investment portfolio] of 30 percent [this year] rate smoothing would cause a –2 percent [loss] to be allocated to each of the next fifteen years. [To counter this loss] PERS keeps warning employers that unless large investment returns are posted in future years, employer rates will continue to rise steadily over time because each future year would continue to recognize another –2 percent of the current year's losses.

Self inflicted wounds?

- A plan with rich benefits or earlier retirement ages will have a higher volatility index, so as a general rule, safety plans have higher volatility indexes than miscellaneous plans. And when benefits are improved, you not only increase your costs, but also your plan's volatility. Most public agency miscellaneous plans have volatility ratios between four and eight [on PERS' index] and most public agency safety plans have ratios between six and 10…Knowing this figure is key to determining how your own employer rates will be impacted when the current year's investment losses are factored into the rates.

- PERS says that of the 2,000 plans it administers, all by 49 have ratios of ten or less. Those 49 plans are going to be shocked when they see their rates. So how does one get a high volatility index? Primarily from improving benefits, because more assets are needed per person employed. And this only seems relevant to retroactive benefit improvements, although almost all benefit improvements are applied retroactively.

- **The PERS Chief Actuary said that the pension fund staff is currently working on 123 local agency requests for contract amendments...only SEVEN of those contract amendments are for benefit reductions. What are the other 116 doing?!?**

Longer-term Issues . . .

- Even if the pension fund were to earn its 7.75 percent annual invest returns [the amount used in the system's actuarial calculations] going forward, employer contribution rates will not come back to current rates within our lifetime. The PERS Chief Actuary said that without a market recovery, many safety plans will go up to 40 percent of pay over the next 30 years.

- Once investment losses for the current year are considered, PERS estimates that the funded status of the pension plan will be about 60 percent. Although PERS Chief Actuary also said that while it's important to keep an eye on the funded status, this figure along is not indicative of dire circumstances.

For more information from the article, please contact PERS Public Agency Coalition at www.publicretirementjournal.org.