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

PRIORITY FOCUS

LEAGUE OF CALIFORNIA CITIES

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GOVERNOR OUTLINES SOLUTIONS TO FILL CURRENT YEAR BUDGET GAP AND ADDRESS PROJECTED DEFICITS FOR FY 2008-09

Cuts Primarily to State Programs and Services: Local Property Tax and Prop. 42 Revenues Not Affected

Gov. Arnold Schwarzenegger released his proposed budget Jan. 10. He began by declaring a fiscal emergency and calling for "true reform" of the budget process to provide the state with a permanent solution to the systemic structural deficit. *For more, see Page 2.*

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SCHWARZENEGGER CALLS FOR PERMANENT SOLUTION TO BUDGET WOES IN STATE OF THE STATE ADDRESS

Gov. Arnold Schwarzenegger in his annual State of the State speech Tuesday, Jan. 8, said that it is time for California to face its budget demons. He outlined a series of proposals, including a constitutional amendment, intended to provide permanent structural changes to stabilize the state's chronic budget imbalance between revenues and expenditures. *For more, see Page 5.*

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REPORT RELEASED ON PENSION AND RETIREE HEALTH BENEFITS

State and local governments face a $118 billion shortfall in unfunded retiree health benefits according to a report released earlier this week by the Public Employees Post-Employment Benefits Commission (PEBC). *For more, see Page 5.*

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Echoing his remarks in his State of the State address Tuesday, Jan. 8, Gov. Schwarzenegger unveiled his Budget Stabilization Act, a constitutional amendment that would establish a mechanism to cap spending when revenues are high, helping prevent future deficits.

The Governor outlined a two-pronged approach to deal with both the projected budget deficit for the current fiscal year (2007-08) and the structural deficit in FY 2008-09.

Governor's Proposed Solution to FY 2007-08 Imbalance

In the FY 2007-08 budget the Legislature passed last August, the Governor projected a $4 billion surplus at the end of the year. However, because of the housing slump and subprime mortgage crisis, state revenues have dropped to such a level that there is no surplus, and the state lacks funding to fulfill its current financial obligations.

To close this gap, the Governor announced that he will sell the remaining $3.3 billion in Economic Recovery Bonds (ERB) by February 2008. For local governments, the effect is that the anticipated sunset of the triple flip mechanism will be delayed several years, to 2012 or beyond.

The triple flip mechanism was established by Proposition 57 (2004), the Economic Recovery Bond Act. It involves taking a quarter-cent of the local sales tax to repay these bonds and reimburses local governments' losses on a dollar-for-dollar basis with property tax.

As another means to address the projected shortfall, the Governor proposed cutting $217 million from state agencies. The 10 percent across the board to state agencies and programs cuts Gov. Schwarzenegger proposed will take effect March 1, 2008. He is also seeking to delay payments on $6.24 billion in funding intended for a variety of existing programs including; K-12 schools, state teachers' supplemental benefits and various Medi-Cal and other health programs.

Proposal Includes Delay in Highway User Tax Payments

The Governor is proposing to delay payment of approximately $500 million of payments of Highway Users Tax (per gallon Gasoline Excise Tax) payments to local governments. Cities and counties receive about $100 million per month of these revenues. The Governor has proposed to suspend these payments for a five-month period (April-August 2008) to be paid in full without interest in September 2008. The League is analyzing this proposal for impacts on cities.

The Administration is citing the authority to delay payment pursuant to Section 6 Article 19 of the California Constitution, which permits borrowing of these funds under certain conditions but requires repayment either within 30 days of the adoption of the budget bill for the subsequent fiscal year or within three years. (At this point, the proposal is suggesting the shorter pay-back period.) This section of the Constitution also authorizes the Legislature to establish a loan program to offset the temporary losses experienced by local government.

Note that these are revenues from the Motor Vehicle Fuel Tax (also called the Gasoline Excise Tax or the Highway Users Tax) allocated among local governments and state transportation funds pursuant to California Streets & Highways Code §§2104-2108. These are not revenues derived from the Proposition 42 sales tax on gas.

Governor's Proposed Solution to Fix FY 2008-09 Imbalance

For the fiscal year that begins July 1, the Governor proposes to cut funding across all state agencies by 10 percent. These cuts have many significant impacts on state programs, including education, with the suspension of Proposition 98. Gov. Schwarzenegger has not proposed to take property taxes from local governments under Proposition 1A (2004), nor has he proposed to taking any transportation funds under Prop. 42, protected by Proposition 1A (2006).

Across the Board Cuts Impact Public Safety Programs

Payments to counties for Local Detention Facilities (Gov Code Sec 29552) have also been reduced by 10 percent to $31.5 million. Current law stipulates that in any year the budget appropriates less than $35 million, counties may impose booking fees on cities in proportion to the under appropriation.

For additional information please see http://www.californiacityfinance.com/BkgFees070831.pdf.

Funding for Gang Abatement Programs: Included in the budget proposal is funding for gang and youth violence prevention including:

- $1.3 million to establish the Office of Gang and Youth Violence Policy
- $5.3 million to fund the Department of Justice's four existing Gang Suppression Enforcement Teams permanently

Transportation Funding

Proposition 42 Fully Funded: Following two Prop. 42 gap years, cities and counties will statutorily receive these funds again beginning in FY 2008-09. The Governor has proposed fully funding the program including $594.2 million specifically for cities and counties. This amount is a significant increase in prior allocations due to the statutory elimination of funding for the Traffic Congestion Relief Program.

The budget proposes to fully fund Prop. 42 at $1.5 billion which includes:

- $594 million for the State Transportation Improvement Program (STIP)
- $297 million for cities (local streets and roads)
- $297 million for counties (local streets and roads)
- $297 million for the Public Transportation Account (PTA)

Proposition 1B: Prop. 1B, which passed in November 2006, included $2 billion in funding for transportation projects. The 2007 Budget Act appropriated $950 million of these bond funds. However, no additional Prop. 1B bond funds for local streets and roads are proposed to be allocated in FY 2008-09.

The proposed budget does include $4.7 billion in bond allocations for the following:

- $1.547 billion for Corridor Mobility Program
- $350 million for Local Transit Program
- $1.186 billion for State Transportation Improvement Program
- $500 million for Trade Corridor Program
- $200 million for State/Local Partnership Program
- $216 million for State Highway Operations and Protection Program
- $65 million for Grade Separation Program
- $108 million for Highway 99
- $21 million for local seismic retrofit projects
- $73 million for intercity rail
- $250 million for air quality
- $101 million for transit security
- $58 million for port security

Public Transportation Account: The proposed budget allocates $1.343 billion to the Public Transportation Account (PTA) for a variety of transit purposes. This amount includes $455 million of "spillover" revenue. The total spillover amount projected for FY 2008-09 is $910 million, half of which will be transferred to address non-transit programs as established under SB 79 in last year's budget.

Housing

The Governor's budget proposes $771 million in Proposition 1C funding for FY 2008-09. This funding includes:

- $200 million for Regional Planning Housing and Infill Incentive Account
- $95.5 million for the Affordable Housing Innovation Fund
- $30 million for the Housing Urban-Suburban-Rural Parks Account
- $96 million for Transit-Oriented Development Implementation Fund

Environment/Resources

Over the last decade, environmental programs at the state level have largely been funded through special fees and ballot measure. Because of this, budget reductions in the General Fund do not typically impact these programs. Impacts may be felt in time delays for the processing of state permit applications such as National Pollution Discharge Elimination System and Local Coastal Plan Amendments.

In addition, there are a few areas specifically that may have city impacts including:

- The budget proposes to reduce funding for the Subventions for Open Space (Williamson Act) by $3.9 million.
- The potential closure of 48 state parks may increase pressure on local emergency responders and law enforcement.

Flood Protection: The proposed budget includes $598 million from Proposition 1E to fund a variety of flood response and levee improvements.

Proposition 84: The budget proposes the expenditure of $1 billion in Prop. 84 funds for a variety of natural resource programs.

Governor's Wildland Firefighting Initiative

The Governor is proposing legislation that would enact a 1.25 percent surcharge on residential and commercial property insurance policies to fund the recommendations of the Blue Ribbon Commission created after the 2003 Southern California fire storms. The projected $125 million generated annually over six years would fund various programs including expansion of the Office Emergency Services engine flee, GPS systems, a reverse 911 system for counties that do not have one and a state-wide warning system.

Mandates Reimbursement Funding

The FY 2008-09 proposed budget includes $139 million for reimbursement claims for costs incurred prior to July 1, 2007. Of this amount, $75 million is proposed for the third payment of reimbursement claims owed to local governments for cost incurred prior to July 1, 2004.

Additional Infrastructure Bonds Proposed: During his statement Thursday, the Governor discussed additional bond measures as part of his Strategic Growth Plan to expand the state's water supply and fund K-12 and higher education facility improvements and courthouse repairs. The League will provide additional information on these proposals at a later date.

Budget Negotiations Will Continue

There is a great deal of action expected this year on the budget. The Legislature, in accordance with Proposition 58, has 45 days to respond to some of the Governor's proposals to address the declared fiscal emergency.

The proposed across the board cuts are sure to trigger many other discussions about how best to address the state's deficit. The League will continue to analyze the many details in the Governor's proposed budget and provide updated materials to city officials.

A copy of the Governor's budget can be accessed at http://www.ebudget.ca.gov/.

'State of the State' Continued from Page 1…

In the address, Gov. Schwarzenegger pointed to years in the past when revenues rose dramatically, spurring an increase in expenditures that could not be sustained when revenues fell. He also acknowledged that previously, in times of budget shortfalls, the Legislature took money from local governments, transportation, bonds and pension funds. Those avenues, however, are now limited due to several voter-approved initiatives including Proposition 1A of 2004.

California's projected budget deficit for the 18 month period which began Jan. 1, 2008 is estimated at $14.5 billion. The Governor spoke of how automatic spending increases are contributing to this year's budget problems even though revenues will remain steady, resulting in spending vastly in excess of available revenues. His proposed a solution modeled on a plan in place in Arkansas and is designed to cap spending in growth years to save money for future deficits.

Infrastructure was another theme of Gov. Schwarzenegger's State of the State address. Our aging system, he reminded the Legislators, was built to accommodate 18 billion people, not California's current population of 37 billion. With a projected $500 billion in infrastructure needs, the governor wants to expand public-private partnerships because he believes they will produce more cost effective and efficient results.

For additional details on Gov. Schwarzenegger's proposed budget for FY 2008-09, please see "Governor Outlines Solutions to Fill Current Year Budget Gap and Address Projected Deficits for FY 2008-09" on Page 1.

'PEBC Report' Continued from Page 1…

The report was based on a statewide survey of state and local government agencies in California. PEBC recommended the establishment of a prefunding policy in order to overcome the deficit. For a copy of the report, and PEBC's various press releases on the process, visit www.lao.ca.gov/retireehealth, under the heading "California: California commission advises funding $118 billion of OPEB liabilities."

League Activity on the Issue

The League of California Cities has been active on the pension and retiree health benefits issue, attending various PEBC hearings throughout 2007. The League submitted recommendations from its working group with the California State Association of Counties (CSAC).

The League's proposal for pension reform includes the need to provide full-career employees with adequate benefits to continue their standard of living into retirement through fiscally sustainable contributions by the employers and taxpayers. Public benefits must be supported by proper actuarial analysis, viewed in the context of compensation, recruitment and retention.

The League also stressed to PEBC the importance of addressing any abuses of the defined benefit system and the fiduciary responsibility for the system by the California Public Employees Retirement System (CalPERS), employers and employees.

For a list of the recommendations made to PEBC, see "Governor's Post-Employment Benefits Commission Prepares for Final Report," at www.cacities.org/er.

Proposition 1B Proposed Goods Movement Guidelines Available

The Air Resources Board (ARB) released its staff report last week on its proposed guidelines for the Prop. 1B: Goods Movement Reduction Program. This report describes the proposed guidelines, includes funding targets and discusses proposed $25 million in early grant funding.

For cities interested in the goods movement portion of Prop. 1B, this report will be very useful. The report can be accessed online at www.arb.ca.gov/bonds/gmbond.

The State ARB and local agencies are partnering in the Goods Movement Emissions Reduction Program (GMERP). The program addresses rapid pollution emissions and health risks related to freight movement along the state's trade corridors. Through GMERP, local agencies, such as air districts, ports and transportation agencies, provide financial incentives to owners of equipment used in goods movement to upgrade to cleaner technologies.

U.S. Communities Offers Life-Saving Automated External Defibrillators

U.S. Communities has a master contract that enables public agencies to purchase automated external defibrillators (AED) at a discounted price. These devices are critical to help save victims of sudden cardiac arrest (SCA) by delivering an electric shock through the chest to restore the heart to its normal rhythm.

Readers of the December 2007 issue of *Western City* magazine learned about how immediate access to AEDs saves lives in League President Jim Madaffer's President's Message. President Madaffer, a San Diego city council member, spearheaded a campaign to make the devices as readily available as fire extinguishers in his community. As of October 2007, 4,000 units had been installed throughout San Diego County saving at least 45 lives.

Hagemeyer is U.S. Communities' source for AEDs as well as homeland security and public safety equipment. The company is an authorized distributor of Cardiac Science Powerheart AEDs. By purchasing AEDs through this contract, cities get:

- A competitively solicited contract that fulfills bidding requirements without going to an RFP;
- Best in class expertise from Cardiac Science sales consultants to help you choose the right AED for your needs;
- Best pricing as a result of the combined purchasing power of more than 30,000 state and local agencies nationwide that are using U.S. Communities contracts;
- No user fees; and
- Ongoing customer support from Hagemeyer representatives to answer your questions and address your needs after the sale.

Who Qualifies for U.S. Communities Pricing?

- Any city, county or state
- Public or private schools K-12, college or university
- Special districts
- Non-profit organizations

Information about U.S. Communities

U.S. Communities is a nationwide nonprofit local government purchasing alliance co-sponsored by the League. It combines the purchasing power of over 30,000 state and local agencies in all 50 states.

Please visit U.S. Communities online at www.uscommunities.org to register. Contact Connie Kuranko, U.S. Communities program manager, at (800) 635-3393 ext. 210 for questions about the alliance.

For more information about the Hagemeyer contract, call (888) 745-6486 or e-mail uscommunities@hagemeyerna.com.

Save the Date: League Events Scheduled for NLC 2008 Congressional City Conference, March 10-12

The League of California Cities is organizing a number of important events during the National League of Cities Congressional City Conference, March 10-12, in Washington, D.C. Meetings are being scheduled with members of the California Congressional delegation, California senators and Administration officials.

Please mark your calendars for the following activities. Additional details will follow as the conference gets closer.

Monday, March 10

- League Reception at Washington Hilton (time TBD)

Tuesday, March 11

- Meeting with California Senator Barbara Boxer (time and location TBD)
- 5:30-7 p.m.-Capitol Hill Reception for California City Officials and California Congressional Delegation (location TBD)

Wednesday, March 12

- 10-11a.m. -Roundtable Discussion with California Congressional Delegation Members (location TBD)

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.
