PRIORITY

FOCUS

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

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GOVERNOR UNVEILS 20-YEAR STRATEGIC GROWTH PLAN

Gov. Schwarzenegger unveiled a bold agenda for 2006 and beyond in his State of the State speech on January 5. Recalling the infrastructure investments made more than 50 years ago by Gov. Pat Brown and other state leaders, Gov. Schwarzenegger said that it was time to replicate the kind of investments that "made California the powerhouse it is today."
For more, see Page 2.

MORE DETAILS OF THE PROPOSAL

League staff is currently analyzing the Strategic Growth Plan information that was posted on the governor's website immediately following his State of the State speech on January 5. More details will likely be available when his complete budget proposal is released Tuesday, January 10. (See also "Strategic Growth Plan Briefing Packet" at www.governor.ca.gov.)
For more, see Page 3.

TELECOM IN THE NEWS

EVENTS AND TRENDS OF INTEREST TO CITY OFFICIALS

Colorado Court Rules City's Cable Franchise Fee is Legal

The Colorado Court of Appeals ruled in December that Colorado Springs' cable franchise fee is legal, rejecting a claim by tax activist Doug Bruce that it is a tax subject to a tax-limitation law that Bruce (an El Paso County Commissioner) authored in 1992. *For more, see Page 2.*

WANT MORE DETAILS ON BILLS?

Visit the League of California Cities website at www.cacities.org/billsearch.

IN THIS ISSUE:

KEEPING UP WITH LEAGUE MEMBERS – SAN JOSE WINS MUNICIPAL ENRICHMENT AWARD!

The City of San Jose was honored for its Dr. Martin Luther King, Jr. Library with the National League of Cities' 2005 James C. Howland Gold Award.

The James C. Howland Awards for Municipal Enrichment recognize and highlight communities that, through effective policies and thoughtful planning, have preserved and/or enriched a high quality of life in cities, towns and villages. Subjective criteria applicants are judged on include the degree to which the program is innovative; the success of the local government in implementing the program; and the extent of the measurable benefit for the general community and local government.

The League congratulates San Jose for its achievement!

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TELECOM IN THE NEWS from page 1

For the complete story, visit www.gazette.com and search for the article entitled "State Appeals Court: City Fees Aren't Taxes."

Telecom Legislation Threatens Public Access TV

An article run by *The New Standard* on December 29 discusses the threat federal telecom legislation could have on public access television funding.

For the complete story, visit www.newstandardnews.net and search for the article titled "Telecom Laws Overhaul Threatens Public-Access TV, Services."

Court Upholds Dismissal of Lawsuit to Prevent Municipal Broadband Project

The 8th U.S. Circuit Court of Appeals has upheld the dismissal of a lawsuit filed by Time Warner to prevent a municipal broadband project in North Kansas City, Mo.

To read the court opinion, visit www.baller.com, click on "Library" and then click on "Comments, Briefs and Descriptions." Scroll down to "North Kansas City Litigation" and search for the link titled "8th Circuit Rules in Favor of North Kansas City."

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GROWTH PLAN from page 1

The governor outlined a "Strategic Growth Plan," calling for a $222 billion investment over 20 years in transportation and air quality, K-12 and higher education, water supply and flood control, and new or expanded prisons and courthouses. Describing the pressing needs in each of these areas, the governor stressed repeatedly, "Let's build it!" (An overview of the proposal is available online at www.governor.ca.gov.)

Funding for the infrastructure proposal would come from bonds, new fees, federal funds and existing general funds. The governor stressed that the proposal includes no new taxes.

Out of $68 billion in proposed bonds, $38 billion (about 55 percent) is intended for support for K-12 or higher education. In the area of transportation and air quality, the proposal calls for $107 billion total investment over the next decade. This amount includes $47 billion from existing funds, including Proposition 42 and federal funds. Other sources are:

- $48 billion in new funding is proposed from leveraging existing funds.
- $12 billion in new bond funds to attract increased federal, local and private funding. These bonds would be approved by California voters in two $6 billion authorizations in 2006 and 2008.

The proposal also includes plans for a ballot measure to enact a constitutional amendment to permanently protect Prop. 42 funding from future shifts to the state general fund.

(For further information, see "More Details of the Proposal," p.1.)

Continued on Page 3

GROWTH PLAN from page 2 ....

Continued Structural Budget Deficit. The governor also stressed the importance of continued fiscal discipline. Reminding his audience of legislators, state constitutional officers, Supreme Court justices and others that the state still has a structural budget deficit, Gov. Schwarzenegger called for a state constitutional amendment to set a 6 percent ceiling for the state's debt service ratio.

He also called for continued efforts at budget reform. Acknowledging that the voters rejected his ballot measure proposal for budget reform (Proposition 76) last November, he asked legislators to "tell me how you would do it."

"Work with me," the governor said. "Autopilot spending will send us into the ground, not into the future. We have not other choice but to prepare for our future."

Infrastructure Funding is a Key League Goal. The League's first strategic goal for 2006 calls for greater state and local investment "in the physical infrastructure of California, including, but not limited to, its roadways, bridges, levees, parks, libraries, and systems for delivering and treating water, wastewater and storm water."

"We applaud the governor's vision, and his willingness to tackle the silent deficit in infrastructure needs that state policy makers have largely ignored for years," said League Executive Director Chris McKenzie. "We also heartened by the infrastructure proposals put forward by Senate Pro Tempore Don Perata's and Assembly Speaker Fabian Nunez, which show a similar commitment to tackle our infrastructure deficit."

"Cities will be carefully watching as details emerge, to ensure that significant portions of infrastructure funding are made available for streets, roads, transit systems, libraries, levees and other local infrastructure needs," McKenzie added.

DETAILS from page 1 ....

While the League strongly supports expanded state investment in infrastructure, our initial analysis identifies several areas where city officials will want clarification. These include the following:

Transportation and Air Quality

The proposal assumes $107 billion in funding for transportation and air quality over the next 10 years, of which $47 billion would come from existing sources and $48 billion from new funding sources. The existing funds include those from Proposition 42, which voters passed in 2002 to dedicate the sales tax on gasoline to transportation projects, including funds set aside for cities and counties to repair local streets and roads. The proposal includes plans for a constitutional amendment to "lock in" Prop. 42 funds for transportation purposes – a proposal that the League strongly supports. This change would end the practice of transferring Prop. 42 funds to the state general fund in times of fiscal crisis.

Will Prop. 42 Funds for Local Street and Road Repairs Be Reduced? The current Prop. 42 funding formulas call for the city/county annual share of funds for local street and road repairs to increase, beginning in FY 2008-09, from the current level of $127 million for cities and $127 million for counties, to $280 million for cities and $280 million for counties. These amounts would then grow over time as revenues in increased.

The Strategic Growth Plan suggests that cities and counties would be capped at their current allocation levels, with the additional funds allocated instead to state projects. The plan notes that reducing the local allocation would require a two-thirds vote.

The League is attempting to clarify this issue with the Department of Finance and with the governor's office.

No Proposal to Change Vote Requirements for Local Transportation Sales Tax Measures. In the area of "new funding sources," the Strategic Growth Plan assumes $9 billion from "extended/

Continued on Page 4

new local transportation sales tax measures," but states that there is no proposal to change two-thirds vote requirements that apply to these local funding measures. Existing League policy supports changes in state law that would make it possible for cities to pass local revenue measures with a simple majority vote.

It is worth noting the Strategic Growth Plan allocates about 55 percent of new bond funds to K-12 and higher education needs – measures that can now be passed at the local level with 55 percent voter support, rather than the two-thirds threshold required for local government revenue measures.

No Funding for Housing, or Housing-Related Transportation Projects. The proposal would fund environmental improvements at ports, highway improvements, expanded rail and transit and other projects. None of projects identified appear to specifically address transit and transportation issues relating to the state's smart growth goals, involving infill housing or the means to address the jobs-housing balance.

Additionally, the Strategic Growth Plan does not include funding that would address the state's urgent need for more housing, and particularly more affordable housing.

Water and Flood Control

Cities are heartened by the governor's proposal to upgrade the state's flood control infrastructure – an issue of statewide importance. After the recent storms in California, it is clear that much needs to be done both at the state and local levels. While current focus has been on levee systems, flood control is a statewide concern that includes not only levees but also flood control infrastructure for urban streams, creeks and rivers and alluvial fans.

The plan proposes to invest $35 billion to "maintain and improve our levee and flood control system" and for water supply: $21 billion from existing federal and local funding sources, $9 billion from general obligation bonds, and a new revenue source, the Water Resources Investment Fund, which will generate approximately $5 billion over 10 years. Of the $35 billion total, $6 billion would be allocated to levees and flood protection ($2.5 billion from bonds), and $29 billion ($6.5 billion from bonds) to integrated regional water management projects.

The proposal also states that the Administration will pursue a package of reforms, including ACA 13 (Harman), which is supported by the League. This Administration-sponsored measure is critically needed for local governments to raise revenue to pay for flood and storm water infrastructure improvements and operating and maintenance expenses.

This will be especially important to any federal-state-local funding structure that contemplates a local match component. The League stands ready to work with the Administration and Legislature on this critically important issue.

The California Resources Investment Fund: How Will It Work? As noted above, the Plan proposes a new fund with revenues derived from a new fee collected from each retail water purveyor. Two-thirds of the funds would be returned to locals to fund integrated regional water projects; the state would retain one-third of the revenues for statewide water resource management programs, including surface storage.

League staff will be carefully analyzing the budget details after January 10 to determine more about this new funding proposal: more about how the fee would be collected and dispersed, and the specific types of projects it would fund.

Our Mission

Restore and protect local control for cities through education and advocacy to enhance the quality of life for all Californians.