



1400 K Street, Suite 400 • Sacramento, California 95814
 Phone: (916) 658-8200 Fax: (916) 658-8240
www.cacities.org

STATE BUDGET ALERT— JOIN A CONFERENCE CALL TUESDAY!

TO: City Managers
FROM: Chris McKenzie, Executive Director
 Jeff Kolin, President, City Managers Department and City Manager, Santa Rosa
RE: Why Cities Should Demand A Fiscally Responsible State Budget
DATE: August 11, 2008

EXECUTIVE SUMMARY: There may be agreement this week on a state budget that relies on mandatory "loans" of local government and transportation funds that may never be repaid and an outright seizure of redevelopment funds unless city officials demand that legislators act in a fiscally responsible way and balance the state budget with state revenues. We can win this fight, but it is up to you. Join us for some conference call briefings tomorrow (Tuesday) to learn more.

Some Important Facts and Myths

- **"Loans" of Local Government and Transportation Funds Are Irresponsible.** Unlike budget cuts or tax increases, "loans" will only worsen the state's structural deficit.
- **Redevelopment Provides Valuable Economic Stimulus.** In a typical year, redevelopment investments generate about \$32 billion in total economic activity, nearly \$1.6 billion in state and local taxes and support 310,000 jobs, mostly in construction.
- **"Loans" Could Do Fatal Damage to Some Cities.** Cities are not created equal and enforced "loans" of local government and transportation funds could spell fiscal disaster in some cities.
- **Myth of Repayment with Interest.** Under Prop. 1A the state can choose not to repay a "loan" from local government or transportation funds or, as some have suggested, tie it to future voter approval of a new revenue source. The state delayed or circumvented mandate reimbursements in the past; the same can be expected with this obligation. The interest rate on any loan will likely be far below the market rate to save the state money.
- **Myth of Securitization.** It may be financially infeasible for cities to borrow against (or "securitize") the state's promise to repay due to the collapse of the bond insurance market, if the state's repayment pledge is contingent, strained city financial conditions, difficulty complying with the requirements to securitize, and chaos in the municipal bond market.

What We Need Each City Manager to Do This Week

MAKE THIS YOUR TOP PRIORITY. This week may be the make or break week. Push everything aside and focus on saving your local funds from another state raid. You will be hearing from the Area Representative to the City Managers Department. Please respond at once.

CALL YOUR LEGISLATORS OFTEN. Call with city officials from other cities and have different council members and the mayor alternate with you—each day this week. Tell legislators you understand they have limited choices and will support them if they do not "borrow" their way out of their fiscal problem or seize redevelopment funds. Let them know you will thank them in public and do it. If they do the right thing, write a letter to the editor praising them.

TELL THEM HOW A LOSS OF REVENUES WOULD HARM YOUR CITY. Be specific and straightforward. They need to know how it will hurt, including redevelopment raids. Michael Coleman and CRA have provided an analysis of each city's **ESTIMATED** maximum exposure at: <http://www.californiacityfinance.com/Prop1A42RDAimp080808.pdf>

COORDINATE WITH YOUR LEAGUE REGIONAL REPRESENTATIVE. Support efforts by your Regional Rep to have multiple cities communicate with legislators.

A RESOLUTION OPPOSING FISCALLY IRRESPONSIBLE STATE BUDGET DECISIONS THAT WOULD “BORROW” LOCAL GOVERNMENT, REDEVELOPMENT AND TRANSPORTATION FUNDS

WHEREAS, on July 1, 2008 the State Legislature missed its Constitutional budget deadline; and

WHEREAS, both the Governor and the Legislative Budget Conference Committee have recommended balanced budgets without resorting to “loans” or seizures of local government property tax, redevelopment tax increment and transportation sales tax funds; and

WHEREAS, in 1952 the voters of California approved in 1952 the voters approved Article XVI, Section 16 of the California Constitution, providing for tax increment financing for community revitalization—not balancing the state budget, and the voters never authorized the legislature to take or “borrow” community redevelopment funds for state programs; and

WHEREAS, in 2004 by an 84% margin of approval the voters of California approved Proposition 1A and sent a loud and unambiguous message to state leaders that they should stop the destructive and irresponsible practice of taking local government funds to finance the state budget and paper over the state deficit; and

WHEREAS, in 2006 by a 77% margin of approval the voters of California also approved Proposition 1A, providing similar protections to transportation funding for state and local transportation projects, including important street maintenance and public transit programs; and

WHEREAS, both ballot measures allow the Governor to declare a “severe state of fiscal hardship” and “borrow” these funds if they are repaid in three years with interest, but the Governor believes it would be irresponsible to “borrow” such funds because it would deepen the state’s structural deficit and cripple local government and transportation services; and

WHEREAS, refusal by the Legislature to carryout its constitutional obligation to compromise on a balanced budget is not a “severe state of fiscal hardship” and would not justify reductions in critical local services, community revitalization programs and infrastructure maintenance at a time when cities are struggling to balance their own budgets during this economic down turn; and

WHEREAS, city investments in infrastructure, affordable housing and basic public safety and other community services will create needed jobs and speed our economic recovery; and

WHEREAS, the Legislature should balance the state budget with state revenues and respect the overwhelming support of voters for not using local property taxes, redevelopment tax increment and transportation sales tax funds to fund the day-to-day operating cost of state programs; and

WHEREAS, it would be the height of fiscal irresponsibility to paper over the state structural deficit with more borrowing, and Californians deserve state leaders who will tell them honestly what needs to be done to produce a balanced budget; and

WHEREAS, it is time for the state of California to cut up its local government credit cards and deal with the budget deficit in a straightforward way. Balance the state budget with state funds.

NOW, THEREFORE, BE IT RESOLVED, that the City of _____ hereby opposes any and all efforts by state government to “borrow” or seize local tax funds, redevelopment tax increment and transportation sales tax funds by the state government to finance state operations. Such a move would be fiscally irresponsible for the state and hamper effective local services and infrastructure investments.

RESOLVED FURTHER, that the Mayor/City Manager is hereby directed to send this resolution and communicate this Council’s strong and unswerving opposition on this matter to our Legislators and the Governor along with an expression of our continued appreciation for the Governor’s and any supportive legislators’ steadfast opposition to further borrowing or seizure of these funds.

APPROVED this _____ day of _____, 2008.

RESOLUTION NO. 08-R-

**RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS
OPPOSING FISCALLY IRRESPONSIBLE STATE BUDGET DECISIONS
THAT WOULD “BORROW” LOCAL GOVERNMENT, REDEVELOPMENT
AND TRANSPORTATION FUNDS**

WHEREAS, on July 1, 2008 the State Legislature missed its Constitutional budget deadline; and

WHEREAS, both the Governor and the Legislative Budget Conference Committee have recommended balanced budgets without resorting to “loans” or seizures of local government property tax, redevelopment tax increment and transportation sales tax funds; and

WHEREAS, in 1952 the voters of California approved Article XVI, Section 16 of the California Constitution, providing for tax increment financing for community revitalization—not balancing the state budget, and the voters never authorized the legislature to take or “borrow” community redevelopment funds for state programs; and

WHEREAS, in 2004 by an 84% margin of approval the voters of California approved Proposition IA and sent a loud and unambiguous message to state leaders that they should stop the destructive and irresponsible practice of taking local government funds to finance the state budget and paper over the state deficit; and

WHEREAS, in 2006 by a 77% margin of approval the voters of California also approved Proposition 1A, providing similar protections to transportation funding for state and local transportation projects, including important street maintenance and public transit programs; and

WHEREAS, both ballot measures allow the Governor to declare a “severe state of fiscal hardship” and “borrow” these funds if they are repaid in three years with interest, but the Governor believes it would be irresponsible to “borrow” such funds because it would deepen the state’s structural deficit and cripple local government and transportation services; and

WHEREAS, refusal by the Legislature to carryout its constitutional obligation to compromise on a balanced budget is not a “severe state of fiscal hardship” and would not justify reductions in critical local services, community revitalization programs and infrastructure maintenance at a time when cities are struggling to balance their own budgets during this economic down turn; and

WHEREAS, city investments in infrastructure, affordable housing and basic public safety and other community services will create needed jobs and speed our economic recovery; and

WHEREAS, the Legislature should balance the state budget with state revenues and respect the overwhelming support of voters for not using local property taxes, redevelopment tax increment and transportation sales tax funds to fund the day-to-day operating cost of state programs; and

WHEREAS, it would be the height of fiscal irresponsibility to paper over the state structural deficit with more borrowing, and Californians deserve state leaders who will tell them honestly what needs to be done to produce a balanced budget; and

WHEREAS, it is time for the state of California to cut up its local government credit cards and deal with the budget deficit in a straightforward way. Balance the state budget with state funds.

Now, therefore, the Council of the City of Beverly Hills does hereby resolve as follows:

Section 1. The City of Beverly Hills hereby opposes any and all efforts by state government to “borrow” or seize local tax funds, redevelopment tax increment and transportation sales tax funds by the state government to finance state operations. Such a move would be fiscally irresponsible for the state and hamper effective local services and infrastructure investments.

Section 2. The City Manager is hereby directed to send this resolution and communicate this Council’s strong and unswerving opposition on this matter to our Legislators and the Governor along with an expression of our continued appreciation for the Governor’s and any supportive legislators’ steadfast opposition to further borrowing or seizure of these funds.

Section 3. The City Clerk shall certify to the adoption of the resolution and shall cause this resolution and his certification to be entered in the Book of Resolutions of the Council of this City.

Adopted:

BARRY BRUCKER
Mayor of the City of
Beverly Hills, California

ATTEST:

(SEAL)
BYRON POPE
City Clerk

APPROVED AS TO FORM:


LAURENCE S. WIENER
City Attorney

APPROVED AS TO CONTENT:

RODERICK J. WOOD
City Manager