

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

PRIORITY FOCUS



IN THIS ISSUE:

**August 22, 2008
Issue #33-2008**

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.*



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.*



FIND A BILL, LEGISLATORS, LEG COMMITTEE, OR ASK LEAGUE LEG STAFF

Visit (and bookmark!) the League's [Legislative Resources](http://www.cacities.org/legresources) 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, including 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.

'ILG' Continued from Page 1...

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.

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August 29, 2008
Issue #34-2008

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CALIFORNIA VOTERS STRONGLY OPPOSE BORROWING TO SOLVE BUDGET

A whopping 96 percent of likely California voters are opposed to borrowing to close the \$15.2 billion dollar budget shortfall. This news was reported by the Public Policy Institute of California (PPIC) on Thursday, Aug. 28 just days before California enters the third month into the new fiscal year without a budget. *For more, see Page 2.*



STATE GOES AFTER UNCOLLECTED SALES AND USE TAX

The Board of Equalization's (BOE) two-year pilot Business License Inspection Program estimates that over 3 percent of California businesses operate without appropriate permits or licenses. This failure results in more than \$2 billion sales and use tax gap. *For more, see Page 3.*



NEW UNIVERSITY COMMUNITY ISSUE GROUP MEETS AT LEAGUE ANNUAL CONFERENCE IN LONG BEACH

Mark your calendars for the University Community Issue Group Discussion Forum: Friday, Sept. 26, 1:30-3 p.m. at the Long Beach Convention Center, Room 101B. Scheduled to be facilitated by Riverside Mayor Ron Loveridge, this will be the inaugural meeting of the University Community Issue Group. *For more, see Page 4.*

'Budget' Continued from Page 1...

The PPIC survey examined a variety of issues at the start of the fall campaign season including voters' economic outlook. The survey found that 84 percent of voters think the budget stalemate is a major problem. According to PPIC, this is the highest level of dissatisfaction on this issue since May 2004. Along with finding that only 4 percent of likely voters say borrowing should be used to close the budget, the survey also found that 44 percent believe that a combination of cuts and taxes are the solution.

This survey reinforces the message that city officials have been driving home for weeks — borrowing local government, transportation or redevelopment funds to close the budget gap is irresponsible. They've been participating in news conferences and other events to cut up a mock "Bank of Local Government Credit Card" to reinforce this message. To date, close to 140 city councils have passed resolutions against borrowing.

Many cities are struggling with their own budgets given the tough economy which has driven down property tax and sales tax revenues as energy costs climb. If the state now borrows local revenues to solve its budget shortfalls, these cities will be forced to enact additional cuts to absorb the hit.

Education Coalition Joins Fight Against Borrowing

The Education Coalition sent a floor alert to the Legislature on Aug. 22 warning against borrowing. The educators contend in their alert that borrowing to close the budget would actually hurt education. Revenues generated through a tax increase mean more money for education through Proposition 98, but if the state uses borrowing to close the gap, education won't gain. In addition, they stress that using borrowing for the FY 2008-09 budget will actually increase the probability that education funding will be cut in FY 2009-10.

Proposed Shift of Redevelopment Is Bad for Cities and California as a Whole

The budget proposal Gov. Arnold Schwarzenegger introduced last Wednesday, Aug. 22, does not include borrowing local government or transportation funds, however it does contain a three year shift of \$675 million of redevelopment funds (\$225 million annually). This shift is of great concern to cities as this amounts to a loss of critical local funds. The League is working with the California Redevelopment Association to bring attention to the fact that this shift is fraught with problems.

The League's executive committee, led by President Jim Madaffer, city council president pro tem, San Diego and 1st Vice-President Heather Fargo, mayor, Sacramento, met with the Governor on Tuesday, Aug. 26 to discuss the budget. The League's officers once again commended the Governor for continuing to stand firm against borrowing but also communicated the devastating impact his proposed shift of redevelopment funds would have on California cities.

Redevelopment funds are critical to both stimulating the economy and helping cities and the state as a whole combat global warming — two top priorities for California. Annually, redevelopment projects generate 310,000 good-paying jobs, provide a total of \$32 billion in economic activity and generate \$1.6 billion in state and local taxes.

With the passage of AB 32 in 2006, California set out on a path to drastically reduce greenhouse gas (GHG) emissions to fight global warming. Redevelopment funds provide funding for projects that incorporate green building practices, encourage infill, transit oriented development and discourage sprawl. The League supported SB 375 (Steinberg), a bill which mandates significant changes for growth and development to meet the goals laid out in AB 32. The goal of Sen. Steinberg's (D-Sacramento) legislation is to provide incentives to cities to do infill development with access to transit to help reduce the number of vehicle miles residents travel.

Unconstitutional Triple-Flip Proposal Emerges

In a sign of growing desperation (and lack of familiarity with Prop. 1A), it has been reported that a stealth proposal is being floated to effectively steal the property tax payments that currently go to

cities and counties under the notorious 2004 "Triple-Flip" law. Under the "Triple-Flip," cities and counties were compensated for a temporary reduction of a quarter-cent of the local Bradley-Burns sales and use tax with an equivalent amount of property tax revenue so the state sales tax rate could be temporarily increased an equivalent amount to be pledged for repayment of the state's economic recovery bonds.

Anticipating this type of double-cross in the out-years, the League and its Prop. 1A partners insisted on explicit language prohibiting such a diversion of the property tax backfill. For those who would even think of this, we suggest you read subsections (4) and (5) of Section 25.5 of Article XIII of the California Constitution and think again. It is unquestionably unconstitutional.

For further information on Prop. 1A, see Michael Coleman's overview at:
http://www.californiacityfinance.com/Prop1A_FAQ.pdf

What's Next

Today's Senate vote on President Pro Tem Perata's budget proposal (which included the three-year redevelopment hit and no reduction of the sales tax after the temporary three year-increase) failed on largely party line votes. However, as of this writing, the roll is still open for votes to be changed and the Senate and Assembly could continue meeting over the weekend.

The Legislature is being told by local election officials that they need to act quickly to put any ballot measures like the proposed spending lid and the lottery expansion on the November 2008 ballot. It's anyone's guess whether they will stay in town. Sen. Jeff Denham (R-Merced) made a motion after the initial failure of the budget to waive the rules to allow a bill to be brought to the floor to make some interim appropriations to provide payments to health care providers and others until a budget is adopted. In Congress, this is called a "continuing resolution" because it appropriates a continuing base amount until Congress can reach agreement on a budget.

What City Officials Should Do

City officials are urged to continue to call the Governor and Legislature to urge continued opposition to borrowing local government and transportation funds to balance the state budget and to oppose any seizure of redevelopment funds for the same purpose.

'Board of Equalization' Continued from Page 1...

As an effort to close the tax gap, the BOE is launching the Statewide Compliance and Outreach Program (SCOP). More than 8,000 businesses in seven different zip codes throughout California were notified the week of Aug. 18 about impending visits from BOE specialists.

Slated to start once the state budget is finalized, the BOE representatives will be canvassing the identified areas to ensure that the businesses are properly registered and paying taxes. The representatives will conduct checks for seller's permits of all storefronts and other known business locations in each neighborhood. Initially, there will be seven teams doing door-to-door visits. The first area codes targeted by the program will be: 94608 (Emeryville), 95826 (Sacramento), 95110 (San Jose), 91406 (Van Nuys), 90505 (Torrance), 92701 (Santa Ana), and 92570 (Perris).

Registered retailers will be checked for appropriate permits and licenses. In addition, service industry businesses will be surveyed, especially those which also sell taxable retail items. Those businesses found to be out of compliance will be given instructions on how to register with the BOE and given information about other necessary licenses.

BOE will be working with cities, counties, chambers of commerce, local organizations and chapters in its outreach effort.

Please visit BOE's Web site for additional information (www.boe.ca.gov).

'Issue Group Meets' Continued from Page 1...

The meeting is open to all and will cover issues affecting cities that host a University of California, California State University or major private university. The discussion will focus on a variety of topics including:

- Public Safety
- Housing
- Development Adjacent to Campus
- City-University Community Relations
- Infrastructure

Annual Town Gown Conference

The annual Town Gown Conference is scheduled for Oct. 16-17 in San Luis Obispo at the Embassy Suites. The October event will be the third Town Gown Conference to bring together city officials and university leadership to discuss the unique challenges that exist for university and their host cities. Sessions will address many of the same topics as the University Issue Group meeting in Long Beach as well as additional topics including:

- Protecting and preserving the environment and neighborhoods;
- Educating youth for future leadership; and
- Creating communities that are vibrant places to live and work.

Please visit www.towngownconference.com for additional information.

Sustainable Cities Feature: La Quinta's Vista Dunes Development is Green Beacon

The Vista Dunes Courtyard Homes in La Quinta is the nation's largest multi-family affordable housing project to obtain LEED "Platinum" certification and is the first in California to achieve this standard. LEED stands for Leadership in Energy and Environmental Design and is the green building certification program of the U.S. Green Building Council.

Opened in May 2008 and developed by the City of La Quinta Redevelopment Agency and opened in May, Vista Dunes sits on the site of an extremely dilapidated mobile home park that housed approximately 370 residents. The new community features 80 rental units ranging from one-to-three bedrooms and can accommodate 300 residents when filled to capacity. Rent ranges from \$374 to \$775 per month depending on resident income and unit size.

Vista Dunes was designed to foster a real sense of community. The buildings are set back from the street to buffer noise and the units are clustered and centered around courtyards. The community includes a basketball court, swimming pool and community center.

La Quinta, a city of close to 43,000 residents in the Coachella Valley, purchased the mobile home park in 2005 with a plan to create a green workforce housing community. The city council is committed to reducing greenhouse gas emissions (GHG) in the city and made Vista Dunes its first foray into sustainable development. The city council has also adopted a Green and Sustainable La Quinta Program, allocating more than \$760,000 for the city's green initiatives.

Here is a quick snapshot of Vista Dune's sustainable features:

- The homes are positioned to minimize western exposure with landscaped trellises to shade western walls
- Drought tolerant landscaping and efficient irrigation
- Thermal chimneys to let in natural light and help circulate and ventilate air
- Photovoltaic solar panels on each unit
- Enhanced filtration in HVAC system (heating, ventilating and air conditioning)

- High efficiency plumbing and fixtures: tankless water heaters, dual flush toilets and oxygenated shower heads and faucets
- Water efficient front-loading washing machines
- Energy Star fans, roofing and windows
- R-19 insulation in exterior walls to reduce energy consumption

Additional information about this community can be found on the Vista Dunes Courtyard Homes Web site (<http://goldinthedesert.com/>).

The City of La Quinta's Web site (www.la-quinta.org) has information on various city programs.

The U.S. Green Building Council has information about its LEED program on its Web site (www.usgbc.org/leed).

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