

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

PRIORITY FOCUS



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GOVERNOR CALLS SPECIAL SESSION TO DEAL WITH BUDGET "EMERGENCY" AND SAYS "EVERYTHING IS ON THE TABLE"

With cities already facing staggering declines in key revenues while aggressively tackling the mortgage foreclosure crisis that is at the heart of the economic meltdown, the Governor is calling the legislature back next week to consider extraordinary proposals to address a serious revenue shortfall in the just-adopted state budget. Like city budgets the state budget is being ravaged by the current economic conditions, and the Governor feels strongly that it is better to deal with these problems sooner than later. *For more, see Page 2.*



GOVERNOR APPOINTS COMMISSION ON MODERNIZING CALIFORNIA'S TAX SYSTEM

Gov. Arnold Schwarzenegger signed Executive Order S-12-08 on Wednesday, Oct. 29, immediately creating the bipartisan Commission on the 21st Century Economy to re-examine and recommend how to modernize California's out-of-date revenue-gathering laws. The 12-member commission to be made up of as yet unidentified legislative and gubernatorial appointees is charged with suggesting changes to create more stability in the state's revenues and to modernize its provisions to reflect the evolution of economic activity in the state. *For more, see Page 3.*



ASSEMBLY BILL 32: IMPLEMENTING CALIFORNIA'S CLIMATE CHANGE CHALLENGE

In 2006, California enacted the most forward reaching environmental law of its kind, Assembly Bill 32 (AB 32) (Nuñez, Chapter 488, Statutes of 2006). AB 32 requires California to reduce its greenhouse gas (GHG) emissions to 1990 levels by 2020. By requiring California to reduce its emissions, the stage has been set for a major transition in the state to a sustainable, clean energy future. *For more, see Page 4.*

'Special Session' Continued from Page 1...

While the details are still emerging, the Governor has announced his intention to call the special session to begin on November 5—the day after the election. The current legislature will serve in office until November 30, giving them just a few precious weeks to address a budget gap in the current year that is reportedly approaching \$10 billion. The new legislators will be sworn in December 1.

Earlier this week the Governor met with the Education Coalition to begin the dialogue with those organizations that have a direct stake in the state general fund. In that meeting, the Governor outlined the difficult economic position of the state and the lack of alternatives to deal with the problem. He also indicated that all organizations with a stake in the budget would likely have to take a share of the cuts that must be made and that new revenues (such as his sales tax proposal) would be needed.

The Governor followed that meeting with a statement on Wednesday in which he described the situation as a "state of emergency" which required that all services be "on the table" for reduction, including law enforcement, prisons, health and education. Private briefing sessions with stakeholder groups, including one with transit advocates on Thursday and local government today, included similar statements. These public pronouncements by the Governor signal a very difficult, potentially long and painful budget debate that will likely result in serious cuts to the current 2008-09 budget and perhaps even deeper cuts when constructing the 2009-10 budget.

Cities are once again at risk during these budget debates, whether in the form of reductions in public safety subventions (e.g., COPS and Booking Fees) or potential "loans" of local property taxes or transportation revenues. As you know, borrowing local funds will only deepen the local budget crisis and increase the state structural budget deficit. It also will delay the economic recovery and put our citizens' safety at risk.

As the frontline troops in attacking the mortgage foreclosure crisis that is at the root of our economic problems, cities use their local property tax revenues to keep citizens safe and transportation and redevelopment funds to make infrastructure investments that are critical to the state's economic recovery. Most city officials believe it would be destructive to force cities to bailout state government during this time of crisis. In fact, it will dig a deeper hole, lead to greater community blight and loss of property values where foreclosures have occurred, and put citizens and neighborhoods at risk.

City officials are urged to call their legislators immediately and make these simple points, supported by local examples.

- **City Revenues Are Declining.** City revenues are declining and cities have already made deep budget cuts and are preparing to make deeper ones. Many cities have eliminated positions, including police and fire positions.
- **Cities Are At the Front Line in Attacking the Foreclosure Problem.** With a variety of resources cities are leading the way in helping convert foreclosed homes to affordable housing, keeping neighborhoods safe and attractive and helping stabilize declining property values.
- **A Local Government Bailout of the State Will Delay the Economic Recovery!** If local government revenues are used to bailout the state budget, cities will not be able to keep neighborhoods safe, assist with the sale of foreclosed properties, and make the economic and infrastructure investments that help create jobs and economic growth. Redevelopment agencies are key partners of the state in promoting the economic recovery and have already lost \$350 million to the state that could have been used to support the economic recovery.

City officials are urged to deliver these messages as soon as possible. It is critical that the state budget crisis not be allowed to deepen the local budget crisis. It needs to be contained and dealt

with by state officials with state funds while city leaders do the same thing locally, keeping our neighborhoods safe and supporting the economic recovery.

'Commission' Continued from Page 1...

Its report will be due April 15, 2009. The Governor indicated this is long-term action that will help avoid the extreme revenue swings that cause crippling deficits while maintaining a tax structure that will ensure our continued competitiveness and attraction to employers and workers.

In support of this action, the Governor's Office noted:

California's antiquated revenue system is a major contributor to our feast-or-famine budget cycles. Our tax system has not been restructured in over 80 years even though our economy has changed dramatically.

- **Fifty percent of California's personal income tax revenues come from just 1 percent of residents.** That's fewer than 150,000 taxpayers, and much of their income is based on volatile investment income – so when their income dips the state's tax revenues fall too.
- **When Wall Street sneezes, California catches a cold.** Nearly 15 percent of our revenue comes from capital gains – meaning the turmoil on Wall Street brings pain straight to Main Street, California.

In contrast, the state of Washington is projecting a revenue shortfall of less than 1 percent, while our state may face a shortfall of nearly 10 percent. The difference is that our state's tax revenues reflect Wall Street's economy more than California's economy.

This annual uncertainty makes it difficult to fund government operations year-to-year.

Boom years produce more spending than can be sustained in bust years, putting state services in constant annual jeopardy.

- Such a volatile revenue stream is unacceptable for California's 38 million residents who rely on a stable funding for a host of state-funded programs.

We need a revenue system as diverse as our economy. Unlike our budget system, California has one of the most diverse economies in the world. A tax system as diverse as our economy would produce stable revenue.

- An improved revenue-gathering system would decrease the pressure for future tax increases to address revenue shortfalls, which will continue to occur if the volatility of our tax system is not reduced.
- A tax structure that better reflects California's economic strengths could actually grow the economy. For example, reducing the corporate income tax would boost hiring, creating jobs.

The news release from the Governor's Office on the creation of the commission contained supportive, but nuanced, statements from the four legislative leaders:

"California's tax system is antiquated and long overdue for an overhaul. Our state is one of the most advanced economies of the 21st century, but it relies upon an outdated and volatile tax model that no longer makes sense. This commission will examine how to best capture revenue in California's dynamic economy and put the state's finances on the stable and sound footing needed to remain a global leader."

- *Senate President pro Tempore Don Perata*

"We need a multifaceted approach to the national economic downturn. That's why I proposed a thorough, non-partisan review of California's economic structure, which was built for the 1930s. This Commission will provide recommendations to help get vital programs like education,

firefighting and children's healthcare off the budget roller coaster. The Commission has a tall order: we need maximum performance in a minimum period of time. We're not looking to punt the problem—we're looking for a playbook filled with potential options. I applaud Governor Schwarzenegger for helping make this Commission a reality, and I appreciate the other legislative leaders' commitment to bringing about modernization and stability to California's economy."

- *Assembly Speaker Karen Bass*

"Keeping California competitive in a global economy is the key to a strong and healthy state budget. I applaud the Governor for working with legislative leaders to address California's broken budget system and I look forward to reviewing revenue-neutral recommendations from the commission, not just on fixing our revenue system, but also on how the state can adjust its spending levels to come into alignment with revenues."

- *Senate Republican Leader Dave Cogdill of Modesto*

"The Commission has a unique opportunity to update California's tax laws and improve our lagging economy while ensuring that taxpayers are protected. I believe the Commission can also play an important role in improving our business climate and putting California jobs first by helping to restore our state as a place where businesses can grow and prosper."

- *Assembly Republican Leader Mike Villines of Fresno*

'AB 32' Continued from Page 1...

The lead state agency for implementation of AB 32 is the California Air Resources Board (ARB). ARB met the first milestone required by AB 32 in 2007 when it developed a list of nine discrete early action measures. In 2007, ARB also developed an inventory of historic emissions, established greenhouse gas emission reporting requirements for major emitters, and set the numeric limit for the 2020 emission reduction mandate under AB 32.

The focus for ARB in 2008 was a document referred to as the "Scoping Plan." The Scoping Plan (Plan), which under AB 32 must be approved by ARB by January 1, 2009, proposes a comprehensive set of actions designed to reduce overall greenhouse gas emissions in California. It is essentially the plan on how the state will achieve the necessary reductions in greenhouse gas emissions by 2020. The Plan includes actions in areas such as energy efficiency, transportation, green building, recycling and waste, housing, high speed rail, industrial emissions, water, agriculture and land use planning.

Under the Plan, actions may be implemented through direct regulations, alternative compliance mechanisms, monetary and non-monetary incentives, voluntary actions, and market-based mechanisms such as a proposed cap-and-trade system. The Plan was released on Oct. 15, 2008 and will be considered for approval at the ARB Board hearing on Dec. 11, 2008.

Key Issue Areas for Local Governments in ARB's Plan:

- *Voluntary 15 percent reduction in local government GHG emissions.* The Plan encourages local governments in California to track emissions using their recently adopted Local Government Operations Protocol as well as encourages local governments to adopt a reduction goal for municipal operations emissions and move toward similar goals for community emissions that parallel the State commitment to reduce greenhouse gas emissions by approximately 15 percent from current levels by 2020.
- *Maximize Energy Efficiency Building and Appliance Standards, and Pursue Additional Efficiency Efforts Including New Technologies, and New Policy and Implementation Mechanisms.* The Plan sets targets for annual energy demand reductions statewide. The reductions include actions like: "zero net energy" buildings, green building codes, appliance efficiency standards, improved compliance and enforcement of existing building standards and voluntary efficiency and green building targets beyond mandatory codes. For municipal utilities it also includes more aggressive utility programs to achieve long term energy savings, including Renewable Portfolio Standards for municipal utilities mandating all utilities, achieving a 33 percent renewable energy mix by 2020.

- *Establishment of Regional Transportation-Related Greenhouse Gas Targets.* In September, Gov. Arnold Schwarzenegger signed Senate Bill 375 (Steinberg, Chapter 728, Statutes of 2008) which establishes mechanisms for the development of regional targets for reducing passenger vehicle greenhouse gas emissions. The Plan states that 5 million metric tons of emissions will be reduced as a result of transportation related planning programs, or almost 3 percent of the total needed to achieve AB 32's 2020 target. This number, however, is a placeholder as the Plan states that the total target "will ultimately be determined during the SB 375 process."
- *Adopt Medium and Heavy-Duty Vehicle Efficiency Measures.* The Plan suggests requiring aerodynamic drag and rolling resistance retrofits of medium and heavy-duty vehicles to improve fuel efficiency. It also suggests hybridization of medium and heavy-duty vehicles, specifically those used in urban, stop-and-go applications to achieve increased fuel efficiency.
- *Expand the Use of Green Building Practices to Reduce the Carbon Footprint of California's New and Existing Inventory of Buildings.* The Plan pulls from a number of areas to produce greenhouse gas savings through buildings that exceed minimum energy efficiency standards, decrease consumption of potable water, reduce solid waste during construction and operation, and incorporate sustainable materials. The Green Building strategy under the Plan also includes siting considerations—noting that buildings that are sited close to public transportation or near mixed-use areas can work in tandem with transportation-related strategies to decrease greenhouse gas emissions. Local governments are encouraged under the Plan to adopt "beyond-code" local green building requirements.

Additionally, the Plan anticipates the State Building Standards Commission will adopt a mandatory code in 2011 which will institute minimum environmental performance standards for all occupancies. The Plan also envisions green building zero-energy targets in the future. Furthermore, the Plan recommends the establishment of an environmental performance rating system for homes and commercial buildings and further recommends that California adopt mechanisms to encourage and require retrofits for buildings that do not meet or exceed minimum standards of performance.

- *Reduce Methane Emissions at Landfills. Increase Waste Diversion, Composting and Commercial Recycling. Move Toward Zero-Waste.* The Plan recommends reduction in landfill methane, through the Discrete Early Action measure for landfill methane control. This measure is expected to be presented to the ARB Board for approval at their January 2009 Board Meeting. The Plan also suggests policies like Extended Producer Responsibility and Environmentally Preferable Purchasing along with commercial recycling and increased production and markets for compost to achieve higher levels of recycling and promotion of zero-waste goals.

What's Next?

Rulemakings and other regulatory actions outlined in the Plan and noted above will take place over the next two years. Under AB 32, the Plan must be in place by January 2009, and measures outlined in the Plan must be in place by January 2012. League staff will continue to update its membership over the next two years through League list serves, *Priority Focus*, and through League policy committees dealing with climate change issues.

SB 375 Conference Scheduled For Nov. 13

City officials are invited to attend Building Forward: Creating a Sustainable California and Fighting Global Warming with SB 375 in San Francisco on Thursday, Nov. 13. Authored by Senate President-Elect Darrell Steinberg and signed into law by Gov. Arnold Schwarzenegger in September, SB 375 connects transportation funding and land use planning to reduce greenhouse gas emissions while protecting local land use control.

The one day conference will feature a keynote address by Senate President-Elect Steinberg and a closing address by Peter Calthorpe. Other confirmed guests include: Tom Adams, president, California League of Conservation Voters; Steve Heminger, executive director, Metropolitan Transportation Commission; and Former San Francisco Mayor Willie Brown, Jr. League of California Cities Legislative Representative Bill Higgins is moderating a session.

The event is sponsored by the Home Builders Association of Northern California, Bay Area Council, Silicon Valley Leadership Group, San Francisco Planning and Urban Research Association and the California Alliance for Jobs.

Event Details

Thursday, Nov. 13: 9:30 a.m. – 4:30 p.m.
PG & E Auditorium
77 Beal Street
San Francisco, CA

Register online at www.buildingforwardcalifornia.com. The conference registration fee is \$150.

FPPC Expected To Adopt New “Gift” Regulations December 11

On Sept. 11, the Fair Political Practices Commission (FPPC) staff recommended that FPPC amend and adopt regulations surrounding the issue of tickets, free admissions, and items given to and by agencies to officials in those agencies. The FPPC voted 5-0 to adopt the staff recommendation and to present the new regulations for adoption. It is now expected that the FPPC will adopt the new regulations at its next meeting on Dec. 11. Mountain View City Attorney, Michael Martello spoke on behalf of the League of California Cities to express opposition to the proposed action.

FPPC staff proposed to amend Regulation 18944.1, “Recipient of the Gift: Passes or Tickets Given to an Agency.” This regulation addresses whether tickets and other free admissions to events that public officials receive from their agencies are gifts to those officials. The proposed amendments will repeal the current regulation and adopt new rules that clarify that tickets and free admissions received by public officials, whether from an outside source and through the official’s agency, or directly from the official’s agency, are gifts to the official unless use of the ticket/admission furthers a specific governmental or public purpose.

FPPC staff also proposed that Regulation 18944.3 be added. This regulation would clarify that a payment is a gift when an agency makes a payment that provided a personal benefit to an official and that payment is not a lawful expenditure of public funds.

Contact League Legislative Analyst Natasha Karl with questions at (916) 658-8254 or nkarl@cacities.org.

HCD Neighborhood Stabilization Program Stakeholder Workshops Scheduled

The California Department of Housing and Community Development (HCD) is reviewing the recently released regulations and guidelines for the new Neighborhood Stabilization Program (NSP). Two stakeholder meetings are scheduled in November for Sacramento and Merced.

Meeting Details

Sacramento: Nov. 3
10 a.m. – 3 p.m.
VCGB Building
400 R Street
Sacramento, CA 95811

Merced: Nov. 7

9 a.m. – 1 p.m.

Merced County Board of Supervisors Chambers
2222 M Street, 3rd Floor
Merced, CA

All interested parties are invited. In addition, HCD is planning to hold an additional strategic meeting with entitlement jurisdictions receiving NSP funds directly from HUD. HCD will provide regular updates to jurisdictions and other interested parties as additional information becomes available.

If you would like to attend one of the stakeholder meetings, please send your request to be included and contact information to cdbg@hcd.ca.gov or call (916) 552-9398. Agendas will be sent by e-mail as they become available.

Reduced Rate for November Summit on Water Policies and Climate Change

City officials are invited to attend a special summit on water policies and climate change scheduled for Nov. 13-14 in Long Beach. Sponsored by the California Department of Water and the Water Education Foundation, the event will bring together top experts from local water agencies, city and state government and the water community. The discussion will focus on the effects of climate change and adaptation on California's water management.

Program Highlights

With California facing its second consecutive dry year, Gov. Arnold Schwarzenegger has declared a statewide drought. The existing water system in California was planned and built before climate change scenarios were considered. The summit is an opportunity for professionals in the water community to discuss and debate the impact of climate change as well as how best to handle the risks and uncertainties of water resource management.

Participants will have time to discuss pending federal legislation and learn about the development of regional climate change models, risk management tools, and the extensive efforts underway to incorporate planning for climate change into state and local water management policies.

Topics include:

- Adaptation and management;
- Assessing hydrologic risks;
- Incorporating flood planning into cities' General Plans;
- Rising sea levels; and
- Preparing for a dry 2009.

Summit Details

Nov. 13 - 14, Long Beach Hilton, Long Beach.

The Water Education Foundation would like to offer a special reduced registration rate of \$125 for the upcoming Climate Change Summit. This includes materials, continental breakfasts, lunch and an evening reception on Nov. 13.

FACT Act Compliance Delayed Until May 1

The Federal Trade Commission (FTC) has moved the deadline for compliance with the Fair and Accurate Credit Transaction (FACT) Act "Red Flag" rule from Nov. 1, 2008, to May 1, 2009. This rule requires some cities to implement written identity theft prevention programs.

The FACT Act added new provisions to the Federal Credit Reporting Act to protect consumers against identity theft. New regulations require financial institutions and creditors to develop and implement written identity theft prevention programs.

Visit www.cacities.org/RedFlagRules to learn more about the new regulations and what cities can do to prepare. The FTC has information on its Web site on the changes. Visit <http://www.ftc.gov/opa/2008/10/redflags.shtm> to access the latest FTC news release.

Contact League Legislative Analyst Natasha Karl with questions or to receive sample programs/ordinances at (916) 658-8254 or nkarl@cacities.org.

Register Today for the 2008 Fire Chiefs Leadership Seminar

If you are involved in municipal fire service issues, emergency/disaster response planning, or labor management, you won't want to miss this year's Fire Chiefs Leadership Seminar. The conference is scheduled for Dec. 3 – 5 at the Disneyland Hotel in Anaheim.

Educational sessions include:

- Finding fiscal solutions in tough budget years;
- Building relationships between fire service leadership, city hall and with labor unions; and
- Ensuring local authority is protected in emergency response contracting negotiations.

Visit www.cacities.org/events to register online. The deadline to register is Wednesday, Nov. 12.

Sustainability Feature: Davis Low Carbon Diet Pilot

One hundred Davis households started a diet in October but the goal of this diet isn't about losing body fat. These dieters are going on the "Low Carbon Diet" as part of a pilot program the city is running to encourage residents to increase energy efficiency, reduce waste and greenhouse gas emissions (GhG).

The program started on Oct. 12, ends Nov. 10, and includes households from a cross section of Davis residents. Participants are using the Empowerment Institute's workbook *Low Carbon Diet: A 30 Day Program to Lose 5,000 Pounds*. The program and workbook are designed so participants take actions in the first 30 days that set them up to meet that goal of cutting 5,000 pounds of GhG's in 12 months.

The City of Davis launched the Low Carbon Diet pilot after staff calculated emissions at the city level, figuring out what percentage of emissions came from city operations and what came from residents. When staff learned that the city operations only amounted to approximately 4 percent of GhGs produced by Davis, they recognized that the only way for the city to be more sustainable would be to engage the residents.

Mitch Sears is the City of Davis' sustainability program manager and one of the residents whose household is part of the pilot. "It's a systematic approach to help households reduce their footprint over the course of a year, said Sears. "People understand that there is a problem but don't know what to do. We can offer a program that allows residents to take direct action with measurable results. Plus, we can show that the program works and that you are combining your efforts with others to make an even larger difference," continued Sears.

The average U.S. household emits 42 metric tons of CO2 annually according to Cool California, which is supported by the California Air Resources Board, the Berkeley Institute of the Environment, the Lawrence Berkeley National Lab, the California Energy Commission and Next 10.

Using the workbook, participants start by calculating their household's annual carbon footprint and then design a carbon reduction plan. The workbook features 19 main actions that households

can implement to achieve the 5,000 pound goal and highlights a wide range of options a person can employ to reduce their emissions.

For example:

- Switching from a 60 gallon garbage can to a 30 gallon garbage can saves 3,100 pounds annually;
- Installing a low-flow shower head and cutting shower time to five minute saves 300 pounds per household resident annually;
- Substituting one vegetarian meal in place of one meat meal per week saves 700 pounds of carbon annually;
- Replacing an incandescent light bulb with a fluorescent one saves 100 pounds of carbon annually;
- Keeping your car tuned up and with the appropriate tire pressure saves 1,500 pounds of carbon annually;
- Tuning up a furnace every year saves 800 pounds of carbon annually; and
- Replacing a car that gets 20 mpg with one that gets 40 mpg saves 5,000 pounds of carbon annually (assuming 10,000 miles driven per year).

The 100 households in the pilot program are broken into groups of 10 with a facilitator from one of the households who checks in with other members of their group. The idea is that similar to Weight Watchers, the Low Carbon Diet's success will depend on peer support.

Sears says that the pilot program is attracting a lot of positive attention. "The only negative comment so far is that the pilot is too small," commented Sears. A second pilot will start in 2009 but ultimately Sears says the city's goal is to engage 75 percent of Davis' 25,000 households in the program.

City staff is collecting ideas from participants to help make the program more Davis focused since the workbook is not tailored to the city but based on more general concepts. Sears mentioned they will be looking at integrating actions that fit the Sacramento Valley Mediterranean climate such as the installation of a whole house fan and native plants to replace a typical grass yard.

Please visit the City of Davis' Web site for more information about the city's Low Carbon Diet pilot program.

www.cityofdavis.org/pgs/Sustainability/lcd_main.cfm

Information about the workbook the city is using can be found on the Empowerment Institute's Web site. www.empowermentinstitute.net/lcd/

Cool California has a tool to calculate your carbon footprint at www.coolcalifornia.org.

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.
