

MAYOR/COUNCIL MATTERS ITEM B



1400 K Street, Suite 400 • Sacramento, California 95814
Phone: 916.658.8200 Fax: 916.658.8240
www.cacities.org

TO: City Officials
FROM: Chris McKenzie, Executive Director
RE: Sample Resolution Declaring Severe Fiscal Hardship
DATE: Friday, May 08, 2009

Background. On May 5 the Department of Finance announced it had proposed to the Governor that the state “borrow” over \$2 billion in local property taxes from cities, counties and special districts to balance the state budget, causing deeper cuts in local public safety and other vital service. In order to start that process, the Governor would have to issue a proclamation declaring the existence of a “severe fiscal hardship.” The legislature would then have to implement the “borrowing” program by passing urgency legislation (2/3 vote) which identifies how the “loan” will be repaid with interest.

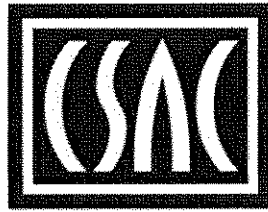
Resolution. The League has developed the attached **Resolution Finding A Severe Fiscal Hardship Will Exist** if this proposed state property tax raid is added to the pressures of the ongoing property tax losses and the serious revenue losses due to the economic recession. The resolution in effect states that the idea of the state taking property tax funds from already stressed city budgets is ludicrous and irresponsible. It helps demonstrate that part of the reason cities are cutting there budgets today, in fact, is because of past and continuing property tax raids. If possible, we urge that a staff report be prepared with information on property tax losses (see below) and budget cuts the city has made and is facing.

Cumulative Property Tax Losses. The attached resolution cites the cumulative property tax losses of cities statewide since the state began taking these funds in the early 1990s— which is \$8.6 billion statewide even after deducting payments cities receive from the Prop. 172 public safety sales tax the state COPS grant program. If you want to see your individual city total, see: <http://www.californiacityfinance.com/ERAFbyCity08.pdf>. Please use the figure in the last column on the right if you want to insert the amount your city has lost to these state raids.

Where to Send Copies. The draft resolution directs the city clerk to send copies to your legislators, the Governor, and the League. We would appreciate you faxing copies to both your League Regional Public Affairs Manager and the League’s Sacramento Office (Fax 916-658-8240).

Note. The last WHEREAS clause was included on the advice of bond counsel to avoid any implication that the city would not honor any of its bond or other contractual obligations.

Questions. If you have any questions or need any information please contact your League Regional Public Affairs Manager.



May 13, 2009

The Honorable Arnold Schwarzenegger
Governor of California
State Capitol
Sacramento, CA 95814

SUBJECT: Strong Opposition to Borrowing Revenue from Local Governments

Dear Governor Schwarzenegger:

The recently proposed option brought forward by the Department of Finance to suspend Proposition 1A (2004) and borrow billions from local governments is extremely concerning to each of our organizations and members. We have appreciated your continued support in standing by the protection of local revenues that support critical services to all Californians and want to reiterate in the strongest possible terms our continued joint opposition to any "borrowing" of revenues from cities, counties and special districts.

In these difficult economic times, local governments in California are also being faced with making tough decisions due to declining revenues and, in many cases, significant budget shortfalls that are already affecting the ability to provide essential services. Shifting additional resources intended for local use through a borrowing will drastically compound the impacts at the local level forcing unprecedented budget and service cuts which will result in further personnel reductions and impacts to public safety among many other areas.

While we understand that decisions have to be made, they should be responsible decisions. Borrowing vital funding from local government to help solve the state's budget deficit is a fiscally irresponsible solution that does nothing to address the structural budget problems. Furthermore, a suspension of Proposition 1A is not a long-term solution and will cost the state even more in the long run, as the borrowed money must be paid back within three years with interest.

Having stood by us in 2004 when Proposition 1A was passed with nearly 84 percent approval, you understand the importance voters have placed on protecting local government services and keeping those revenues local. We respectfully request your continued support to reject any proposal to borrow revenues from cities, counties and special districts now and in the future.

Thank you for your hard work on behalf of the people of California.

Sincerely,

Handwritten signature of Judith Mitchell in black ink.

Judith Mitchell, President
League of California Cities

Handwritten signature of Gary Wyatt in black ink.

Gary Wyatt, President
California State Association
of Counties

Handwritten signature of Arlene Schafer in black ink.

Arlene Schafer, President
California Special Districts
Association

**A RESOLUTION FINDING A SEVERE FISCAL HARDSHIP WILL EXIST IF
ADDITIONAL LOCAL PROPERTY TAX FUNDS ARE SEIZED AND
ADDITIONAL UNFUNDED MANDATES ARE ADOPTED BY THE STATE OF
CALIFORNIA**

WHEREAS, the current economic crisis has placed cities under incredible financial pressure and caused city officials to reopen already adopted budgets to make painful cuts, including layoffs and furloughs of city workers, decreasing maintenance and operations of public facilities, and reductions in direct services to keep spending in line with declining revenues; and

WHEREAS, since the early 1990s the state government of California has seized over **\$8.6 billion** of city property tax revenues statewide to fund the state budget even after deducting public safety program payments to cities by the state; and

WHEREAS, in FY 2007-08 alone the state seized **\$895 million** in city property taxes statewide to fund the state budget after deducting public safety program payments and an additional \$350 million in local redevelopment funds were seized in FY 2008-09; and

WHEREAS, the most significant impact of taking local property taxes has been to reduce the quality of public safety services cities can provide since public safety comprises the largest part of any city's general fund budget; and

WHEREAS, in 2004 the voters by an 84% vote margin adopted substantial constitutional protections for local revenues, but the legislature can still "borrow" local property taxes to fund the state budget; and

WHEREAS, on May 5 the Department of Finance announced it had proposed to the Governor that the state "borrow" over \$2 billion in local property taxes from cities, counties and special districts to balance the state budget, causing deeper cuts in local public safety and other vital services; and

WHEREAS, in the past the Governor has called such "borrowing" proposals fiscally irresponsible because the state will find it virtually impossible to repay and it would only deepen the state's structural deficit, preventing the state from balancing its budget; and

WHEREAS, the Legislature is currently considering hundreds bills, many of which would impose new costs on local governments that can neither be afforded nor sustained in this economic climate; and

WHEREAS, state agencies are imposing, or considering, many regulations imposing unfunded mandates on local governments without regard to how local agencies will be able comply with these mandates while meeting their other responsibilities; and

WHEREAS, the combined effects of the seizure of the City's property taxes, increasing unfunded state mandates, and the revenue losses due to the economic downturn have placed the city's budget under serious fiscal pressure; and

WHEREAS, our city simply can not sustain the loss of any more property tax funds or to be saddled with any more state mandates as they will only deepen the financial challenge facing our city; and

WHEREAS, a number of the City's financial commitments arise from contracts, including long term capital leases and debt obligations which support securities in the public capital markets, that the City must honor in full unless modified by mutual agreement of the parties.

NOW, THEREFORE, BE IT RESOLVED THAT THE CITY COUNCIL OF THE CITY OF _____ has determined that the City will experience a severe fiscal hardship if the recommendation of the Department of Finance to "borrow" \$2 billion of local property taxes is supported by the Governor and the Legislature; and

RESOLVED FURTHER, that the City Council strongly and unconditionally opposes the May 5 proposal of the Department of Finance and any other state government proposals to borrow or seize any additional local funds, including the property tax, redevelopment tax increment, and the city's share of the Prop. 42 transportation sales tax; and

RESOLVED FURTHER, that the City Council strongly urges the state legislature and Governor to suspend the enactment of any new mandates on local governments until such time as the economy has recovered and urges the state to provide complete funding for all existing and any new mandates.

RESOLVED FURTHER, that the City Clerk shall send copies of this resolution to the Governor, our state senator(s), our state assembly member(s) and the League of California Cities.

ADOPTED this _____ day of _____, 2009.