

Reaction to governor's budget proposal



Publisher's note: *The following was sent to the South Lake Tahoe City Council on Jan. 11 and is being printed here with City Manager Dave Jinken's permission.*

Mayor and Council:

The news for cities and our public does not look good in the Governor's proposed State budget. The article below from the League of Cities provides good insight.

Local revenues to operate transit systems that people locally depend on are at risk. Reducing funding for local transit also means higher cost for local residents and a diminished public transit option.

While we are trying to build an effective and efficient local transportation system, State government proposes to reduce funding for it as the City Council will hear this week.

In addition, the proposed budget continues to seek to illegally take local redevelopment funding for a second year, but the City Council has strongly supported action by the California Redevelopment Association to fight the theft of these local funds in court, and court action by CRA is pending. Last year, the State lost one taking case. Our hope and expectation is that they will lose this one as well.

The Governor proposes to slow down the payment of certain local funds to cities (HUTA, gas tax). This approach does not help to stimulate the local and State economy. Cities will be less likely to commit what funds they have for street repair

etc if they are not going to get the funds in a timely fashion. It just doesn't make sense.

We will evaluate the impact on our residents of the Governor's proposed Emergency Response Initiative surcharge on residential and commercial property insurance plans. With an ever-present fire danger in the Basin, we must stay focused on initiatives that promote and support fire suppression and fuel reduction.

There are some job creation initiatives and funding in the proposed budget that we need to examine how we might benefit from it. With a South Shore unemployment rate estimated to be at 15 percent help is needed to build a strong and diverse private employment sector of our local economy. Our efforts to build a strong local economy are impeded by a State government that attempts to take away the fruits of our labor.

As stated below, the Governor is proposing funding State parks with a proposal to use revenues from increased oil drilling of the Santa Barbara coast. Last year this controversial proposal was not approved.

In summary, City government, local residents, and business and labor must keep "our proverbial eyes" on the state budget ball. We have much at stake. Balancing the State budget on the backs of local government like ours that provides essential services to the community is folly at best. We need to vigorously monitor the development of the state budget, continue strong advocacy in Sacramento to protect local revenues, and do what we can to further protect local government revenues on a statewide basis. We must stay informed and keep united with other local governments and private sector advocates to protect local revenues and protect the services we provide to the 24,000 people who reside here.

State officials have a tough job. Taking away local revenues that we depend on to provide essential services to our

community to balance a broken State budget system is not the answer. Structural reform of budgeting and State government are needed.

Thank you for your leadership in the past. Staff and I will stay focused on this important matter. We will remain vigilant.

Respectfully,

David M. Jinkens, MPA, city manager

2010-01-10 League Continues to Analyze Budget

The budget released today by Gov. Arnold Schwarzenegger eliminates most funding (\$1.5 billion) for transit agencies across California and destabilizes other critical transportation funding sources by proposing to remove the sales tax on gasoline in exchange for additional excise taxes through a complicated tax swap scheme.

“This is just the kind of Byzantine proposal that we’ve seen from the state over and over again in recent years that erodes voter confidence in state government,” said Chris McKenzie, League of California Cities executive director. “Destabilizing local infrastructure funding in this way puts California on the wrong track to reinvigorate the economy.”

As recently as 2006, voters went to the ballot box and supported the protection of gas tax revenues for all transportation purposes including transit. Recent court decisions have also clarified that prior legislative attempts to raid transit dollars were illegal. Public transit is a vital component of California’s transportation system and for many residents it is their only mode of transportation.

Cities remain greatly concerned that transportation funds that are proposed to be allocated to local governments from the additional excise tax would be more vulnerable to future

legislative raids. Just last year, the Governor proposed taking almost \$1 billion of transportation excise taxes from local governments to fund state budget obligations. This proposal was narrowly defeated in the final hours.

The League has reviewed the components of the budget for potential city impacts. The Governor proposes to resolve a \$19.9 billion state budget deficit (\$6.9 billion in FY 2009-10, and \$13.3 in FY 2010-11) with \$8.5 billion in cuts, pursuing \$6.9 billion in additional federal funding to get a "fair share" for the state, and \$3.9 billion through various funding swaps, fees and other mechanisms.

Below is the staff's preliminary analysis of issues of importance to cities.

Transportation

Proposition 42 and HUTA. The Governor proposes to eliminate the 5 percent (temporarily 6 percent through FY 2010-11) sales tax on gas (Proposition 42), and partially replaces the funding by increasing the excise tax on gas (Highway Users Tax Account or HUTA) by 10.8 cents. This would bring the total excise tax to 28.8 cents per gallon, whereas the existing combined Prop 42 and HUTA taxes currently total 34.4 cents per gallon.

The League has not yet reviewed language for this proposal, but it has been represented by the administration as not changing the current distribution of HUTA, funding levels for the State Transportation Improvement Program (STIP) or local streets and roads in FY 2010-11.

The new 10.8 cent excise tax would be allocated as follows (in FY 2010-11):

- * \$629 million for the STIP;
- * \$629 million for local streets and roads (identical to

Proposition 42 amounts); and

* \$603 million for the General Fund for transportation bond debt service.

It is uncertain how the new distribution will impact local funding in future years. Since the fund source would no longer be from the state sales tax on gasoline, these funds would no longer be protected by Prop. 42 and Prop. 1A (2006). Instead, the Governor's administration maintains that these funds would be protected by Article XIX of the state constitution – the same law that protects current 18 cent per gallon Motor Vehicle Fuel Excise tax allocations.

The Governor's budget summary does indicate that the excise tax will be adjusted in future years to cover future bond debt.

Although there is no mention in the budget proposal, the Administration assures us the proposal only affects the 5 percent (temporarily 6 percent) state sales & use tax rate and would leave Prop 172, county realignment, locally adopted add-on rates and the local Bradley Burns rates in place on sales of gasoline

Transit. This funding swap has the greatest immediate impact on transit operations. Prop. 42 funds the Public Transit Account and the Spillover are both be eliminated under this proposal. This means a reduction of transit funding of \$1.5 billion in FY 2010-11.

The Governor proposes to fund capital projects for transit:

* \$350 million in Prop 1B funding for local transit projects; and

* \$581.4 million in High Speed Rail bonds and \$375 million in Federal ARRA funding to continue environmental planning and preliminary engineering, and to begin purchasing land.

However, none of these sources are available for transit operations.

Public Contracting. The budget proposes to shift \$12.5 million in costs to local agencies for developing Cal-Trans Project Initiation Documents for local projects.

Redevelopment Agency Property Tax Shift. The Redevelopment Agency property tax shift proposed last year for FY 2010-11 budget remains. The Governor proposes to shift \$350 million in redevelopment agency property tax increment revenues in FY 2010-11 to fund county trial courts. This is consistent with the approved FY 2009-10 Budget and is the subject of legal challenge. However, the use of the funds to supplant state funding of trial courts is new.

State Cash Flow and Delays of Local Payments. Projects that the cash flow difficulties faced in recent years will be substantially reduced, particularly if the budget solutions offered are adopted. However, the Governor's proposal states that some payment deferrals will still be needed. These are not specified, but city funds affected by these payment deferrals in recent years include monthly payments of local HUTA funds and Prop. 42 state sales tax on gasoline funds for streets and roads.

State Mandate Reimbursement. The Governor proposes to again delay payments to local governments owed for mandate costs prior to FY 2004-05. This funding was deleted from the last two fiscal years' budgets.

Public Safety

COPS and Booking Fees. Governor's proposal would maintain the formula established in the FY 2009-10 budget that created the Local Public Safety Account providing funding for COPS programs, booking fee reimbursement, rural sheriffs, juvenile probation, and crime prevention programs. The account was created by shifting the program funds from a direct General

Fund allocation to a 0.15 percent carve-out from the Vehicle License Fee (VLF).

The account would receive \$442 million in FY 2010-11, representing a \$26 million increase from FY 2009-10. These projections fall short of the \$500 million allocation made from the General Fund in previous budget years. This funding, however, would expire at the end of FY 2011 when the VLF increase is scheduled to sunset.

The Department of Finance did note that revenues would likely continue to trickle in past the expiration date because vehicle owners have been making late payments on their vehicle registrations.

Emergency Response Initiative. The Governor reintroduced for a third year his Emergency Response Initiative that places a surcharge on all residential and commercial property insurance plans statewide to fund the state's emergency response capabilities. The surcharge amount of 4.8 percent would result in an annual appropriation of \$200 million towards enhancements for CAL FIRE, the California Emergency Management Agency (formerly Office of Emergency Services), the Military Department, and assistance to local agencies first responders in support of the state's mutual aid system.

Corrections. The Governor proposes cutting the Department of Corrections and Rehabilitation budget by \$1.2 billion for the second year in a row. As outlined, this would be partially achieved by changing sentencing for non-violent, non-serious and non-sexual felony offenses so that county jails can retain a segment of inmates that would otherwise be sent to state prison. (Drug possession is an example felony that would carry a one-year jail sentence in lieu of prison.)

The budget would achieve an estimated \$811 million in savings from reductions to inmate health expenses. The savings are anticipated to be achieved largely by state contracts with

private providers for medical and administrative services.

Other savings would be achieved through changes enacted in last year's corrections budget that are currently underway including reforms that placed non-violent, low-risk parolees on summary parole with no direct state supervision, enhanced credit earnings for training program completion, and the cutting non-court mandated inmate rehabilitation services.

The FY 2010-11 budget proposal also assumes an \$880 million reduction for the General Fund achieved by obtaining federal funds to pay for the incarceration of alien criminals in state prisons. This is roughly the amount the federal government has yet to reimburse California for providing alien inmate services.

Other Public Safety Savings and Reductions

* Department of Justice (DOJ) Forensic Labs. To cover the expense of the DOJ forensic labs, serving local law enforcement agencies without their own lab facilities, current penalty assessments levied on fines will increase from \$1 to \$3 dollars. In the Governor's 2009-10 budget, he proposed shifting the cost of DOJ forensic labs to local agencies by charging a direct fee for each service. This was dropped later.

* California Highway Patrol (CHP). The budget proposal would provide \$17.8 million to the CHP for 180 new officer positions to increase road patrols and provide quicker response times to accidents and call for assistance.

* Automated Speed Enforcement Revenue. This proposal would provide \$337.9 million in revenue from a new speed enforcement program based on using red light cameras to identify and fine persons speeding through intersections. The proceeds would be used to alleviate the General Fund deficit and provide \$41 million towards trial court security.

Housing/Land Use

California Environmental Quality Act (CEQA) Streamlining. The Business, Transportation, and Housing Agency would be authorized through the Governor's proposed budget to select 20 projects from around the state for job creation and capital investment. The selected projects would be exempt from any challenge to the certification of the environmental review under CEQA. The exemption would be valid for 12 months.

Elimination of Office of Planning and Research (OPR) The Governor's budget proposes to eliminate the Governor's OPR and moving many of the existing functions, such as the CEQA Clearinghouse and the general plan guidelines, to other agencies such as the Department of Resources and Housing and Community Development (its difficult to tell from the language provided exactly which departments will receive various functions).

Environment

Water: The Governor proposed an increase of \$70.5 million (47 new positions) to implement the comprehensive water package passed in November, 2009. These funds and positions reflect the establishment of the Delta Stewardship Council and the Sacramento-San Joaquin Delta Conservancy, as well as funding the development of the new Delta Plan outlined in the recent legislation.

Additionally, the Governor proposed a reduction of \$6.4 million in funding to the State Water Resources Control Board. These cuts would be offset by increases to existing fees for several water quality regulatory programs, including National Pollutant Discharge Elimination System programs, Water Rights and Irrigated Lands.

In addition to fee increases by the State Water Board, the Governor proposed an additional \$5.5 million (32 new positions) as a part of the recent water package

implementation. These monies will help establish and augment water investigation and enforcement units at the State Water Board.

Parks. The Governor is also proposing to fund state parks by reviving a plan that failed last summer to raise money with additional oil drilling off the Santa Barbara coast. This proposal would generate \$100 million this fiscal year and \$1.8 billion over the next 14 years, according to the administration.

Beverage Container Recycling Fund. Finally, the Governor is proposing a \$54.8 million in FY 2009-10, and a \$98.2 million loan repayment in FY 2010-11, to the Beverage Container Recycling Fund. This is part of a comprehensive proposal by the administration which includes eliminating continuously funded grant payments to cities and counties for recycling in lieu of annually appropriating these funds.

Job Creation, Training, & Retention through Employer Incentives

\$230 million is proposed to be allocated to the Employment Training Panel (ETP):

- * \$140 million would be available to employers and training providers that deliver training for unemployed and underemployed individuals, as well as for employment expansion and job retention;

- * \$90 million would be available to provide a \$3,000 incentive to employers to hire and retain an unemployed individual. Until there are further details the League is uncertain as to whether this proposal will apply to local governments.

The League will continue to review the Governor's budget proposals for potential local city impacts in detail as language becomes available.