City of Woodland

REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: June 2, 2009

SUBJECT: Approve a Resolution of Fiscal Hardship

Report in Brief

The State of California has once again initiated discussion of possessing local government revenue under the conditions stipulated by the 2004 approval of Proposition 1A. These conditions allow for borrowing up to 8% of local government property tax in order to help resolve the state's projected budget deficit of over $20 billion. In response to this action, the League of California Cities has requested that all city councils approve a resolution of fiscal hardship that summarizes the adverse impacts to local services and calls attention to the state's irresponsible action. Staff has prepared the resolution for the City Council's consideration.

Staff recommends that the City Council approve Resolution No. _____ finding that a severe fiscal hardship will exist if additional City property tax funds are seized and additional unfunded mandates are adopted by the State of California.

Background

In 2004 California voters by an historic 84% approval enacted Proposition 1A. This proposition was incorporated into the state constitution and placed very specific conditions around the state's periodic raids on local government revenues. These periodic raids on local government revenues has caused the loss of 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. In Woodland, the loss of revenue due to the state's periodic raids and shifts are directly responsible for **over $24,000,000 in lost income since the early 1990's.** As a result of the overwhelming approval of Proposition 1A in 2004, discussion of raiding local government revenue by the Governor and legislature was reduced until last year when the continual mismanagement of the state's fiscal condition generated new interest in possessing property tax and redevelopment funds. At that time, the legislature discussed the possible "borrowing" under unknown terms of up to $1.3 million of property tax and taking over $500,000 in redevelopment funds before settling on the outright possession of approximately $140,000 from Woodland's Redevelopment Agency.

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. 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.

Staff believes that the Department of Finance announcement was in anticipation of the miserable failure of the initiatives to balance the state budget rejected by California voters on May 19. The $2 billion would be generated by "borrowing" an amount equal to 8% of all local property tax. For Woodland, the 8% would amount to $1,325,024 or 27% of the $5,000,000 remaining General Fund reserves. Staff believes that the latest potential raid of City revenues would generate a fiscal hardship for Woodland given the fact that the City Council is presently considering budget reductions of over $6.8 million for the General Fund with impacts to all programs, including public safety, community development, library and parks & recreation.

In response to this irresponsible action, the League of California Cities has asked all cities to approve 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 expresses 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 their budgets today, in fact, is because of past and continuing property tax raids.

Discussion

Staff believes that the City Council's approval of the attached resolution is critical to calling the attention of Woodland residents, business owners and property owners to the state's irresponsible action. While the City of Woodland is confronting its fiscal issues by implementing long term financial planning, maintaining reserves, committing to performance based budgeting, carefully downsizing staffing levels and considering a new Budget and Fiscal Policy, the State of California remains locked in ideological rhetoric that fails to solve the problem. It is appropriate for the Woodland City Council to join with all other city council to send a strong message to the legislature and the Governor that tells them to stay away from local revenues.

Fiscal Impact

As stated herein, the loss of local property tax under the plan announced by the Department of Finance on May 5 would be $1,325,024. These funds are to be "borrowed" under the provisions of the 2004 Proposition 1A. The terms and conditions of this "borrowing" are unknown at this time with the exception that the repayment is to include some level of undefined interest and be completed in three years. However, Proposition 1A allows the state to not repay the funds, meaning that the property tax would be lost to the City without compensation.

Public Contact

Posting of the City Council agenda. A copy of the resolution and staff report will be sent to the League of California Cities of the City Council approves the staff recommendation.

Recommendation for Action

Staff recommends that the City Council approve Resolution No. _____ finding that a severe fiscal hardship will exist if additional City property tax funds are seized and additional unfunded mandates are adopted by the State of California.

_____
Mark G. Deven
City Manager

Attachment: Resolution No. _____

RESOLUTION _____

A RESOLUTION FINDING A SEVERE FISCAL HARDSHIP WILL EXIST IF ADDITIONAL CITY 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 of 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 WOODLAND 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

BE IT RESOLVED FURTHER, that the City Council of the City of Woodland 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 Proposition 42 transportation sales tax; and

BE IT RESOLVED FURTHER, that the City Council of the City of Woodland 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.

BE IT RESOLVED FURTHER, that the City Clerk of the City of Woodland shall send copies of this Resolution to the Governor, our State Senators, our State Assembly Member and the League of California Cities.

ADOPTED this 2nd day of June, 2009.

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Marlin H. Davies, Mayor

Artemio Pimentel, Vice-Mayor	Martie L. Dote, Council Member
William Marble, Council Member	Jeff W. Monroe, Council Member

Mark G. Deven, City Manager

ATTEST:

Susan L. Vannucci, Director of
Administrative Services/City Clerk