

A Post Prop 1A World



CSMFO
Legislative Seminar

Michael Coleman
coleman@cal.net
tel/FAX: 530.758.3952



*For more info visit www.californiacityfinance.com
and the *League of Calif Cities on-line* at www.cacities.org*

16 May 2007



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Essentials of Proposition 1A of 2004



Constitutionally prohibits the state from:

- Reducing the local sales tax rate or altering its method of allocation.
 - Exception: interstate compact, e.g., for streamlined sales tax / remote sales.
- Decreasing VLF revenue from the 0.65% rate without providing replacement funding to cities and counties.
- Shifting property taxes from cities counties or special districts. Except:
 - Beginning FY08-09, may borrow up to 8% of local prop tax revenues (currently about \$1.3Bill) under certain conditions.
 - Legislature may reallocate among cities, counties and special districts with a 2/3 vote of both houses of the legislature.
- Strengthens prohibitions against unfunded state mandates.



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Property Tax Shifts Under Prop 1A?



- Not before FY08-09
- Governor must declare "severe fiscal hardship"
- 2/3 vote of each house of Legislature.
- Legislature must pass a law providing for full repayment plus interest within 3 years.
- Can't be suspended unless prior three year loan is repaid.
- Can't suspend more than twice in ten years.



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The Post Prop 1A World

The state still sets the rules:

- Exemptions, collections, administration fees, allocation rules, audits, etc.

Many Fronts:

- Legislature, BOE, Counties, Controller, Commission on State Mandates, etc.



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Some Current Hot Topics in the New World

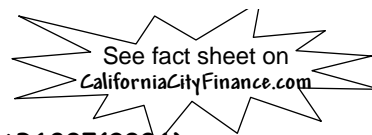
1. Mandate Reimbursement Reform progressing
2. Jail Access Fees – The New Booking Fees
3. Transportation Funds: Prop 42
4. The new Franchise Fees under AB2987
5. Governor's Budget – items especially affecting cities



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#2 New Rules for Booking Fees



AB1805(2006)

beginning FY 2007-08

1. \$35m to counties for local detention facilities & equip.
2. Counties to charge a “**jail access fee**” for bookings in excess of each agency’s 3 year average of bookings for municipal code and misdemeanor violations except DUI and domestic violence offenses / protective orders.
3. If Legislature appropriates less than \$35 million in any given year, counties could charge booking fees* in proportion to the level of under-appropriation.

*(at 2005 rate which is 1/2 actual costs and in effect on 7/20/06 with CPI plus 1% adjustment)

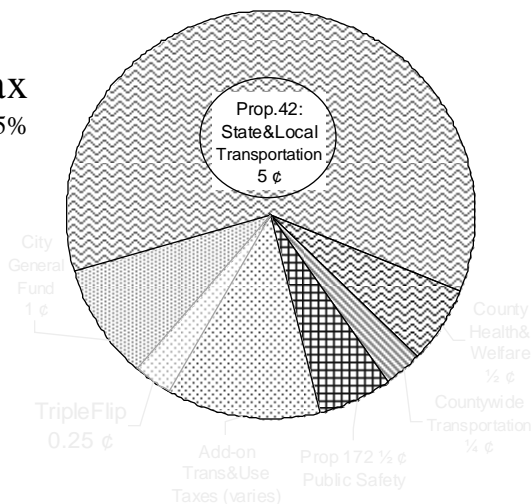


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#3 Transportation Funds for Cities



Sales Tax
7.25% to 8.75%



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#3 Transportation Funds for Cities

More info:
CaliforniaCityFinance.com

- Statute implementing Prop 42 provides no city/county funding in FY06-07 and FY07-08
 - City/county Prop 42 money goes instead to repay accounts that fronted \$ to cities & counties prior to Prop 42.
- FY06-07 funding is repayment (+interest) for suspensions in FY03-04 and FY04-05.
 - Fills the FY06-07 “gap”
- Expect a Prop 42 funding gap in FY07-08.



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#4 Franchise Fees AB2987 (Núñez, Levine)

- Local CATV franchises preempted *effective Jan 2, 2008*
 - State franchise under PUC created – began issuing March 1, 2007.
 - Existing local franchises remain in effect until they expire.
- Operator must pay “state franchise fee” to cities and counties.
 - 5% of gross receipts (unless incumbent pays less).
 - Fee to PUC for processing state franchise application.
 - Intent of Legislature: local entities to maintain “existing level of revenue from franchise fees.”
- Public, Education & Gov’t (PEG) channels:
 - Three local channels plus possible new state channel
 - Cities & counties may impose 1% PEG fee.
- State Franchises valued as possessory interest (same as local CATV franchises) for property taxation.



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#4 Franchise Fees

AB2987 (Núñez, Levine)

- No build-out requirement.
 - Negotiated commitments from ATT & Verizon.
- Anti-discrimination
 - Three years: 25% of households offered video service are low income
 - Five years: 30%
- No vested rights in state franchises
- Local enforcement of customer service standards in state law:
 - \$500 per day not to exceed \$1,500 for “material breach;” subsequent breach of “same nature” penalties increase to \$1,000 per day not to exceed \$3,000; 3rd breach within same 12 months as second, \$2,500/\$7,500.



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#4 Franchise Fees

AB2987 (Núñez, Levine)

- ACTION STEPS!
 - Inform New Providers of Incumbent's Franchise Fee (or send a copy of existing franchise agreement)
 - Pass an ordinance establishing a PEG fee
 - Include confirmation that state franchise fee is 5%
 - Establish (by ordinance) fines for customer service violations
 - Ensure that any state franchisee interconnects to incumbent cable provider's system – to ensure continuation of PEG programming
 - Request PEG channels from any state franchisee



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#5 Governor's Proposed Budget proposals affecting cities

- COPs/Juvenile Justice funded at \$238m
- Detention Facilities - Jail Access Fees \$35m
- State Mandates – no funding in FY07-08
 - FY06-07 budget contained 2 years of the 15 years of payment for pre-Prop1A unfunded mandates
 - FY06-07 mandates budgeted in FY06-07, but Governor proposes to now fund these claims a year later (e.g. FY07-08 claims budgeted/payed in FY08-09)
- Prop 42 (state sales tax on gasoline) fully funded,
 - but, consistent with current law, none goes to local streets & roads in FY07-08.



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#5 Governor's Proposed Budget proposals affecting cities

- Retire Economic Recovery Bonds Early (Aug '09) \$595m
- Redirect \$1.35B of transportation funds to offset general fund costs:
 - \$830m home to school transportation (incl \$200m in the current year)
 - \$340m transportation debt
 - \$144m regional center transportation
- Eliminates Williamson Act subventions \$39.1m



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The "Spillover" from the Sales Tax on Gasoline

See fact sheet on
CaliforniaCityFinance.com

- Transportation Development Act of 1971:
high growth in revenues from sales tax on gasoline go to Public Transportation Account
- Public Transportation Account
 - 50% State Transit Assistance – local transit operations & capital
 - 50% CalTrans – State Transit Programs / rail
 - Sources of funding: sales tax on diesel, sales tax on 9¢ gas excise tax, State Highway Account, spillover.



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The "Spillover" from the Sales Tax on Gasoline

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- Law allows Legislature to divert spillover to General Fund or other purposes.
- Legislature has diverted over \$700m in recent years including in FY06-07:
 - \$200m to repay Prop 42 suspension
 - \$125m to the SF/Oakland Bay Bridge project
 - \$20m for farmworker transportation
 - \$13m for high speed rail
 - ... But \$310m to State Transit Assistance & mass transit



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