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**TO:** City Officials  
**FROM:** Chris McKenzie, Executive Director  
**DATE:** May 5, 2009  
**SUBJECT:** Proposal to Borrow Local Government Property Taxes Irresponsible

Today the Department of Finance informed us they have presented a May Revision budget option to the Governor that he consider borrowing 8 percent of city, county and special district property tax revenues, estimated at just over \$2 billion, to help close its FY 2009-10 deficit. Details of the proposal are contained in the attached option paper from DOF. You should know **it is the equivalent of 8% of the fiscal 2008-09 property tax receipts, including the triple-flip and VLF-property tax swap amounts.** Here is what we are saying about it:

- **Borrowing Proposal is Irresponsible.** The proposal is irresponsible and will threaten the safety of every Californian. The League will strongly oppose any proposal that puts the funding of state government ahead of the public safety of our residents.
- **Proposal Puts Public Safety At Risk.** California cities are struggling under the growing weight of the economic slowdown and the revenue losses it has caused. Cities have already enacted painful cuts to balance their own budgets—including layoffs, furloughs, reduction of services, and project and maintenance delays. DOF's proposal would be especially disastrous to public safety, one of the top priorities of city residents and 60 – 80% of most city budgets.
- **Proposal Would Mark Return to Binge Borrowing.** The DOF proposal is fiscally irresponsible. It acknowledges the deep cuts its proposal would cause at the local level yet it fails to point out that diversion of local property tax funds to finance the state budget will only deepen the state's structural deficit; the state is obligated to repay the property taxes with interest in three years. In the meantime, however, the state will have decimated local public safety and other essential community services and dug itself a deeper hole from which it is less likely to recover. This is a step backward to the days of binge borrowing that brought California to the financial precipice in the first place.
- **Governor Should Reject Borrowing.** The Governor opposed previous proposals to borrow local funds and should reject this proposal for the fiscally irresponsible idea it is. Borrowing local government funds will put public safety at risk and cut community services for families and children. It will never be acceptable to sacrifice essential local services to fund the state budget. The state needs to balance its budget with its resources.

The proposal is attached for your information. Interestingly, it identifies many of the problems we have listed above and then some more. **Your Regional Public Affairs Manager will be getting you information shortly on what you can do help fight this idea.** In so doing, remember that this is a proposal to the Governor—not one he has endorsed. We recommend that you strongly criticize the suggestion—not the Governor—who may very well reject it.



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May 5, 2009

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## **FOR IMMEDIATE RELEASE**

### **Californians' Safety Threatened by Proposal to Borrow Local Property Taxes**

**Sacramento, CA** — Today the Department of Finance informed local officials they have prepared a May Budget Revision option for the Governor to consider that borrows 8 percent of local governments' property tax revenues, estimated at just over \$2 billion, to help close the state's budget deficit. The proposal will threaten the safety of every Californian. The League will strongly oppose any proposal that puts the funding of state government ahead of the public safety of city residents.

"This proposal is irresponsible and would have disastrous and long-lasting impacts. Cities are already reducing services due to the recession and can't afford to cut public safety and other essential services to bail the state out," said League President and Rolling Hills Estates Mayor Judy Mitchell.

Chris McKenzie, League Executive Director, added: "For most cities police and fire protection make up 60 – 80% of their budgets." Californians know how important it is to maintain public safety. According to a Field Poll released April 30, seventy-four percent oppose cuts to law enforcement and police. DOF's proposal significantly increases the likelihood cities will have to cut the very public safety services the voters want protected.

The League called on the Governor to reject the DOF proposal. McKenzie said: "The Governor has said repeatedly that borrowing local property taxes and Prop. 42 transportation funds is irresponsible. It only deepens the state's structural deficit and creates an obligation to repay. In the meantime, local services will be cut severely and citizens' safety will be put at risk. This is precisely the type of budgeting that California needs to avoid. The state needs to balance its budget within its own resources."

The League of California Cities is prepared to fight vigorously to protect city services to the millions of Californians who live in cities.

*Established in 1898, the League of California Cities is a nonprofit statewide association that advocates for cities with the state and federal governments and provides education and training services to elected and appointed city officials.*

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# 2009-10 May Revision Option (Dollars in Thousands)

## Local Government Financing Title: Borrowing from Local Government

|                          | GF                 | FF | Other | Total Reductions   | PY Reduction |
|--------------------------|--------------------|----|-------|--------------------|--------------|
| <b>2009-10</b>           |                    |    |       |                    |              |
| <b>Workload Budget</b>   |                    |    |       |                    |              |
| <b>Reductions</b>        | <b>\$2,006,000</b> |    |       | <b>\$2,006,000</b> |              |
| <b>Governor's Budget</b> |                    |    |       |                    |              |

### **Program Description**

The constitution allows that up to 8% of local governments' property tax revenues can be borrowed by the state and repaid within three budget years with interest. The amount that can be borrowed is determined by the amount of property taxes received by cities, counties, and special districts in the preceding year. Borrowing from local government in the 2009-10 fiscal year would provide \$2.006 billion in solutions.

### **Program Reduction**

An option to address the potential budget shortfall would be to borrow property tax revenues (Proposition 1A, 2004) from local governments.

Local governments could borrow against the state's constitutional obligation to repay, thereby mitigating the impact of this reduction. However, in the current economic landscape, local governments are not easily finding available short term financing and could face difficulties borrowing these funds from the market. If they borrow, local government will incur substantial borrowing costs.

If local governments are unable to borrow or can borrow insufficient amounts, local government may have to make reductions to locally funded services. Property tax revenues are used by local governments for a variety of services including police and fire, waste collection, road maintenance, libraries and other services.

### **Reduction Impacts**

Specific impacts of this reduction will vary by local jurisdiction and will in part depend on the ability of local government to obtain borrowing from the market. This reduction could result in cuts to locally funded services such as police and fire, waste collection, road maintenance, libraries and other services.

## **2009-10 May Revision Option (Dollars in Thousands)**

Based on a survey of the top 15 California cities in terms of property tax revenue collection estimates (based on 2006-07 collections), if adopted, this option could result in reductions to their budgets, as follows:

|                  |              |
|------------------|--------------|
| Los Angeles      | \$67,712,897 |
| San Francisco    | \$61,833,541 |
| San Diego        | \$20,054,088 |
| San Jose         | \$12,810,380 |
| Sacramento       | \$7,425,680  |
| Long Beach       | \$6,604,224  |
| Oakland          | \$6,363,535  |
| Fresno           | \$4,607,868  |
| Newport Beach    | \$4,475,138  |
| Pleasanton       | \$3,202,884  |
| Bakersfield      | \$3,071,241  |
| Riverside        | \$3,051,165  |
| Fremont          | \$3,025,522  |
| Berkeley         | \$2,951,759  |
| Huntington Beach | \$2,886,124  |

Reductions, if not replaced by local borrowing, would come on top of reductions most cities and counties are considering or already budgeting to address shortfalls in local sales and property tax revenues. Finance is estimating property taxes to decline by an average of 4 percent in 2009-10 after growing only about 2 percent 2008-09 and sales taxes are declining by about 15 percent from 2007-08.

Increases in layoffs of police, fire, public health, recreation and other tax supported workers are likely. Due to federal and state laws, counties may have limited ability to reduce costs in some programs where financial responsibility is shared, but they can make some employee compensation reductions and implement other savings. Special districts and cities often have other fees that could be raised to backfill reductions and maintain services. However, basic public protection can generally not be fee supported. Districts that are only property tax supported would face up to 8 percent budget reductions.

### **Timing of Implementation**

The reduction could be legally effective on July 1, 2009, if enacted as an urgency statute. The statute would provide for the timing and mechanism of payment to the state. Locals receive property tax in December and April or shortly thereafter. Taking funds from them before that could cause a local cash crunch and some may simply not pay timely.

### **Statutory and/or Regulatory Change**

The Constitution requires the Governor to issue a proclamation of a severe state fiscal hardship and passage of a separate two-thirds vote bill. The bill should specify how interest will be paid since there is no provision in current law for this and the Constitution requires there be payment of interest provided by law. It is likely locals will ask that their full cost of borrowing be covered by state interest payments.