



CITY COUNCIL AGENDA REPORT

MEETING DATE: JUNE 16, 2009

ITEM NUMBER:

SUBJECT: DECLARATION OF A SEVERE FINANCIAL HARDSHIP IF THE STATE OF CALIFORNIA BORROWS LOCAL GOVERNMENT PROPERTY TAX REVENUE TO BALANCE ITS OWN BUDGET

DATE: JUNE 1, 2009

FROM: CITY MANAGER'S OFFICE

PRESENTATION BY: ALLAN L. ROEDER, CITY MANAGER

FOR FURTHER INFORMATION CONTACT: CAROL C. PROCTOR, MANAGEMENT ANALYST,
(714) 754-5688

RECOMMENDATION:

Adopt Resolution No. 09-___, declaring a severe financial hardship if the State of California relies on local property tax revenue to balance its budget, and urging the State to reconsider the proposal to "borrow" funds from local government.

BACKGROUND:

On May 5, 2009, the California Department of Finance proposed that the State "borrow" over \$2 billion in local property taxes from cities, counties and special districts to balance the State budget. In order to do so, 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. The "borrowing" plan option was included in Governor Schwarzenegger's May 14 Budget Revise.

At the request of the League of California Cities (League), over 100 cities in the State have passed or are scheduled to pass a resolution declaring a state of severe financial hardship to send a message to the State Legislature and the Governor through the League that the borrowing plan is not acceptable. The League has launched a campaign, "Save Your City," a statewide advocacy effort to oppose any further "borrowing" of local property taxes to balance a structural State budget deficit. The League has requested all California local governments to adopt resolutions opposing any such action by the State and to submit them to the State Legislature and the Governor.

ANALYSIS:

Should this plan be implemented, the City of Costa Mesa would lose \$3,352,200 in revenue in FY 2009-10. This loss in revenue would increase the City's current projected General Fund deficit from \$18.9 million to \$22.2 million.

The proposal by the State to borrow local revenues adds further strain and pressure to cities, including Costa Mesa, because of the loss of revenues due to the national economic downturn. Also, the proposal comes at a time when cities are in the final stages of preparing their FY 09-10 budgets. Staff has prepared the attached Resolution (Attachment 1) declaring a severe financial hardship if the State plans to rely on local property tax revenue to balance its budget. The Resolution further urges the State to

reconsider this proposal. The Resolution, in effect, states that the idea of the State taking property tax funds from already stressed city budgets is 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. This on-going loss of revenue could have funded many programs, including more paved streets and increased law enforcement patrol.

While the proposed resolution specifically focuses on the proposed borrowing of property tax as announced in the Governor's May revised budget it also applies to more recent suggestions out of Sacramento as they relate to local revenues. These include proposals relating to the local share of gas tax (\$2 million impact to Costa Mesa) and reimbursement of funded mandates and unfunded mandates.

ALTERNATIVES CONSIDERED:

Do not adopt the Resolution.

FISCAL REVIEW:

If the State pursues the recommendation of the California Department of Finance, the result of the proposed "borrowing" plan will be a loss of \$3,352,200 in FY 09-10 to the City's General Fund. This figure is calculated by reducing all property tax, VLF "swap," and sales tax "triple flip" by 8 percent. The action by the State would reduce the City's anticipated FY 09-10 property tax revenue from \$40,295,000 to \$36,942,800; a decline of 8 percent from the previous year.

LEGAL REVIEW:

The City Attorney's Office has reviewed and approved the attached resolution "as to form."

CONCLUSION:

The City Council needs to consider the adoption of Resolution 09-___, declaring a severe financial hardship if the State of California relies on local property tax revenue to balance its budget and urging the State to reconsider the proposal to "borrow" funds from local government. If adopted, the Resolution will be forwarded to the League of California Cities, the Governor and the City's State legislative representatives.

CAROL C. PROCTOR
Management Analyst

THOMAS R. HATCH
Assistant City Manager

MARC R. PUCKETT
Director of Finance (fiscal review only)

KIMBERLY HALL BARLOW
City Attorney (legal review only)

DISTRIBUTION: Department Directors
Assistant Finance Director
Budget & Research Officer
Legislative & Public Affairs Manager

ATTACHMENTS: 1 [Resolution No. 09-___](#)
2 [May 14 Revise from Governor – Borrowing from Local Govts](#)
3 [Save Your City Notice from the League of California Cities](#)