

25

“To Be Delivered” Material
For
City of Sacramento
City Council
Housing Authority
Redevelopment Agency
Economic Development Commission
Sacramento City Financing Authority
Agenda Packet

Submitted: Monday, May 18, 2009

For the Meeting of: Tuesday, May 19, 2009

The attached materials were not available at the time the Agenda Packet was prepared.

Subject: Declaring the City of Sacramento in Severe Fiscal Hardship

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Please include this “To Be Delivered” material in your agenda packet. This material will also be published to the City’s Intranet.

For additional information, contact the City Clerk Department at Historic City Hall, 915 I Street, First Floor, Sacramento, CA 95814-2604– (916) 808-7200.



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www. CityofSacramento.org

Consent
May 19, 2009

Honorable Mayor and
Members of the City Council

Title: Declaring the City of Sacramento in Severe Fiscal Hardship

Location/Council District: Citywide

Recommendation: Review and adopt 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

Contact: Marty Hanneman, Assistant City Manager, (916) 808-5704

Department: City Manager's Office

Division: Not applicable

Organization No: 02001011

Description/Analysis

Issue: On May 5, 2009, the California State 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 help balance the State budget. The City estimates this proposal will result in the loss of more than \$12 million of property tax revenues to the City of Sacramento in FY2009/10 if it is adopted. The State Legislature is also currently considering hundreds of new bills that, if adopted, will impose new costs and mandates on local governments without dedicated funding.

The proposed Resolution will place the City on record as strongly and unconditionally opposing State proposals that borrow or seize locally dedicated funds, including property tax, redevelopment tax increment, and the City's share of Proposition 42 transportation sales tax revenues.

Policy Considerations: The current economic crisis has placed cities, including Sacramento, under considerable financial pressure. In Sacramento, it has been necessary to reduce services, impose furloughs, and layoff City employees to keep spending in line with declining revenues.

In 2004, California voters approved by an 84 percent margin, a requirement that the State can only borrow, but no longer seize, local revenues as the State had done in the early 1990s to balance the State budget. Since State law requires any funds "borrowed" from local governments be repaid with interest within three years, State action to "borrow" local government property tax revenues will deepen the State's existing structural deficit and threaten its ability to properly repay local governments.

Environmental Considerations: Not applicable.

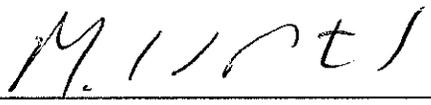
Commission/Committee Action: Not applicable.

Sustainability Considerations: Not applicable.

Rationale for Recommendation: The City is responsible for adopting a balanced budget every fiscal year. The City has made difficult, but necessary, decisions to impose furloughs and lay-off City employees to keep spending in line with declining revenues. Staff recommends adoption of this Resolution to deter the State from considering proposals that impose unfunded mandates or "borrow" local government revenues that increase the State's structural deficit.

Financial Considerations: The City estimates this action will result in the loss of more than \$12 million of property tax revenues to the City of Sacramento in FY2009/10 if adopted. The State is required by law to repay any "borrowed" property tax revenues within three years.

Emerging Small Business Development (ESBD): Not applicable.

Respectfully Submitted by: 
Mark Prestwich, Special Projects Manager

Recommendation Approved:

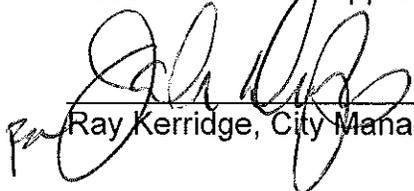

Ray Kerridge, City Manager

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Background

On May 5, 2009, the California State 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 help balance the State budget. This is not a new State budget strategy, as the State of California permanently redirected a portion of City property tax revenues in the early 1990s to balance its budget.

In 2004, California voters by an 84 percent margin adopted substantial constitutional protections for local revenues. However, the State can still "borrow" local property taxes to fund the State budget so long as they are repaid with interest within three years. In the past, Governor Schwarzenegger has called such "borrowing" proposals fiscally irresponsible because they increase the State's structural deficit, not reduce it. The State Legislature is also currently considering hundreds of new bills that, if adopted, will impose new costs and mandates on local governments without dedicated funding.

The City estimates the State Department of Finance's proposal will result in the annual loss of more than \$12 million of property tax revenues to the City of Sacramento if it is adopted. The State process for "borrowing" local funds requires several actions:

1. The Governor must issue a proclamation of "severe fiscal hardship"
2. The Legislature must enact an urgency statute suspending local government property tax protection with a 2/3 vote of each house; and
3. The Legislature must enact a law providing for full repayment of the "borrowed funds" plus interest within three years.

The State Legislature may not suspend local government revenues more than twice in any ten year period.

The proposed Resolution will place the City on record strongly and unconditionally opposing State proposals that borrow or seize locally dedicated funds, including property tax, redevelopment tax increment and the City's share of Proposition 42 transportation sales tax revenues.

RESOLUTION NO. 2009-

Adopted by the Sacramento City Council

FINDING A SEVERE FISCAL HARDSHIP WILL EXIST IF ADDITIONAL LOCAL PROPERTY TAX FUNDS ARE SEIZED AND ADDITIONAL UNFUNDED MANDATES ARE ADOPTED BY THE STATE OF CALIFORNIA

Background

- A. 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
- B. 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
- C. In FY2007/08 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 FY2008/09; and
- D. 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
- E. 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
- F. On May 5, 2009, the State 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
- G. 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

- H. The Legislature is currently considering hundreds bills, many of which would impose new costs on local governments that can neither be afforded nor sustained in this economic climate; and
- I. 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
- J. 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
- K. 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
- L. 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.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. 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
- Section 2. The City Council strongly and unconditionally opposes the May 5, 2009 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
- Section 3. The City Council strongly urges the 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.
- Section 4. The City Clerk shall send copies of this resolution to the Governor, our State Senator, our State Assembly Members, and the League of California Cities.

Adopted by the City of Sacramento City Council

by the following vote: