



STAFF REPORT

Consideration of Resolution in Support of Proposition 1A

Honorable Mayor and Council Members

Summary

In 2003, the League of California Cities (the League) voted to begin an initiative process asking the voters of California to make it more difficult for the state government to take away local revenues. On September 25, 2003 Council adopted a resolution supporting the League's efforts. The result of the League's efforts became Proposition 65 and then Proposition 1A. This November, Proposition 1A will be on the ballot, and the League has asked member cities such as Belmont to pass resolutions in support of the effort. Attachment A is such a resolution and staff recommends Council approve it.

Background and Discussion

For many years, local governments have been the victims of revenue raids by the state government. In the early 1990's, the state took away several billion dollars in city and county property tax revenue in order to solve its budget crisis and meet its financial obligation to schools. Despite the "boom years" in the later 1990's, that funding was never returned to local governments. The cumulative impact of state actions has been the elimination of more than \$30 billion of local property tax revenue. This has come at the expense of vital local services, such as police and fire. For Belmont, the City has lost over \$6 million in local funds due to State action during this period, including \$1.7 million just this past year, after factoring in a VLF Gap loan of \$.4 million.

Despite vigorous lobbying by local officials and numerous "blue ribbon committees" studying the state-local fiscal relationship, politicians in Sacramento have seemed incapable or unwilling to change the system. Every year, city officials have to re-fight the same fight to protect local revenues. The League of California Cities, an association of all the cities in California, determined the only way to change the system is through the ballot process. In 2003, the

membership of the League, with the support of the Belmont City Council, voted to sponsor a statewide ballot initiative to limit the ability of state government to take local tax funds. This initiative became Proposition 65 when it qualified for the ballot with 1.2 million signatures. Proposition 65 requires a 2/3 vote of the legislature and approval of a majority of the electorate before the state can take or redirect local tax revenues (sales tax, property tax and the Vehicle License Fee). It would also clarify that the state must reimburse local governments for a new mandated program or higher level of service. As a result of Proposition 65 qualifying, the Governor approached local governments with a compromise that he would be willing to support. Proposition 1A represents that compromise.

Proposition 1A:

- Protects shares of property taxes of cities, counties and special districts
- Provides statutory repayment of deferred mandates (est. \$2 billion) over 3 year period, beginning in 2006-2007
- Requires annual reimbursement for state mandated programs or suspension of mandate (With the exception of employee rights and benefits)
- 1% of the local sales tax revenue is protected.
- A triple flip return guarantees return of ¼ cent sales tax to cities when Prop. 57 bonds retire.
- Reduces VLF fees to 0.65%
- Exchanges VLF backfill for property tax revenues
- VLF Gap Loan – Constitutionally guarantee repayment in 2006-2007
- Legislature can approve local exchanges of sales tax for an equal amount of property tax on a purely voluntary or local-option basis
- Any type of voluntary revenue exchange agreement must be revenue-neutral
- Beginning in 2008-2009, after issuance of a proclamation of fiscal emergency by the governor and approval by the legislature of a separate urgency bill by a 2/3 vote, the state may borrow local property taxes under the following conditions:
 - VLF Gap loan has been repaid
 - Deferred Mandate Payments are on schedule for repayment in 3 years, beginning in 2006-2007
 - Sums must be repaid with interest within three years
 - No More than a total of \$1 billion (or an equivalent percentage of total property tax) may be borrowed at any time.
 - No more than two loans may occur during any ten-year period, and new loans are prohibited until earlier loans have been repaid.
 - Repayment is constitutionally guaranteed so local governments can borrow against it.

As part of the compromise to get Proposition 1A approved by the Legislature and Governor, local governments agreed to a takeaway of \$2.6 billion over two years. For Belmont, this means a general fund loss of \$245,000 this year and the same amount next year. Despite this additional takeaway, the long-term protection and stability of Proposition 1A is beneficial.

Fiscal Impact

There is no fiscal impact to this report. The revenue lost in Fiscal Year 04-05 and Fiscal Year 05-06 has been programmed into the City's budget. If Proposition 1A is approved, the chance of further state takeaways is significantly diminished.

Recommendation

Staff recommends Council approve the resolution in Attachment A supporting Proposition 1A.

Alternatives

1. Reject the resolution
2. Modify and approve the resolution
3. Provide alternative direction to staff
4. Take no action at this time

Attachments

- A. Resolution
- B. Proposition 1A Handout

Respectfully submitted,

Daniel J. DeSmidt
Acting Assistant to the City Manager

Daniel Rich
Interim City Manager