

## Governor's Budget Reform Proposal

**General Fund Revenue Forecasts:** Establishes a General Fund (GF) revenue limit to be calculated by the Department of Finance (DOF) for the 09-10 fiscal year. DOF is required to calculate the average annual percentage in GF revenues over prior 10 years "a rolling '10." (The resulting percentage shall be applied to the revenue total for the 08-09 fiscal year) DOF shall adjust its future budget year forecasts based upon the above percentage. The revenue forecasts used in the Governor's Budget and the final budget adopted by the Legislature shall be based upon this revenue forecast.

**Revenue Stabilization Fund:** Establishes a Revenue Stabilization Fund in the State Treasury. Funds transferred shall not be deemed "revenues" for purposes of the Proposition 98 Constitutional school spending requirements, until they are transferred into the General Fund. Requires the Controller to deposit all revenues received by the State in the 09-10 FY and beyond into the Revenue Stabilization Fund. States that this requirement applies to all State excess revenues including those identified pursuant to the existing State (Proposition 4) Appropriations Limits.

**15% Funding "Spillover Threshold" :** Requires that in any year in which revenues in the Revenue Stabilization Fund exceed 15% of the General Fund limit for that fiscal year, that the excess funds shall be allocated as follows:

- Requires a proportional amount of funds equal to the percentages established by the Proposition 98 school funding formula, shall be directed to schools and community colleges for those purposes. (Clarifies that any amounts allocated through this process do not create any additional funding obligations for the state under Prop 98.)
- Requires any remaining excess funds to be spent for one or more of the following: (1) Reduction of tax rates and fee schedules, (2) expenditure on state public works projects, (3) repay principal and interest on general obligation bonds.

**Use of Revenue Stabilization Fund:** Authorizes the Legislature (in years when the DOF forecasts revenue growth below its 10 year rolling average) to transfer from the 15% reserve portion of the Revenue Stabilization Fund an amount not exceeding the difference. Requires the transfer to take place in a bill with no unrelated provisions and a two-thirds vote. Authorizes the Governor to reduce the amount. Governor's veto are subject to a two-thirds vote of the Legislature.

**Mid-Year Revenue Estimates and Reductions:** Requires, commencing in 09-10 FY, DOF to estimate GF funds and expenditures to the Legislature in November, January and June of for the applicable fiscal year. Requires DOF to reduce appropriations when GF expenditures exceed revenues. If expenditures will exceed revenues by less than 1%, DOF shall reduce GF appropriations "across the board" by 2%. If expenditures exceed 1%, expenditures shall be reduced by 5%. (reductions do not apply to debt obligations, collective bargaining, other expenditures required by contract, does not supersede Prop. 98, etc.). Legislature is authorized by statute to alter funding formulas to achieve allocated reductions. Authorizes the Governor to suspend any statute or regulation that may limit the required reduction of GF revenues. States that any funding formulas or changes in benefit eligibility made by either the DOF or the Governor shall remain in effect until superseded by subsequent statute.

## The Issue: Infrastructure Bond Allocation and Economic Stimulus

The 2006 State Infrastructure Bond Package includes funding for local projects. Funding appropriated in FY 2007-08 is just beginning to be allocated. Additional 2006 infrastructure bond funds are proposed to be appropriated in FY 2008-09. Programs of significant interest to California cities are:

**Local Street and Road Funds:** \$950 million was appropriated from Proposition 1B in FY 2007-08 to cities and counties from the Local Street and Road Program. Specifically, \$550 million was designated for cities. The State Controller disperses the funds to cities on a per capita formula included in Prop. 1B. The formula provides a minimum funding level of \$400,000 for each city. Prior to receiving an allocation, local governments must submit a list of projects expected to be funded with these funds to the Department of Finance (DOF). The DOF reports monthly to the Controller, which issues checks to cities around the 15th of each month.

**Funding for Housing and Infill Infrastructure:** Prop. 1C allocates \$2.85 billion for housing and infrastructure projects. Approximately half of the bond, \$1.4 billion, is designated for infill infrastructure (\$850 million), parks associated with housing development (\$200 million), transit-oriented development (\$300 million), and innovative programs (\$100 million).

**Funding for Parks and Planning:** Prop. 84 designates \$400 million for parks in disadvantaged areas and \$90 million each for community planning and urban greening projects.

### Key Messages

#### Infrastructure Bond Allocation Can Stimulate the Economy

Cities encourage the Legislature to expedite the allocation of state infrastructure bond funds. *Funding transportation, housing, infill infrastructure and parks will help spur economic activity—the demand for materials and jobs will increase, the economy will grow and revenue for state and local government will increase.*

#### Expedite Proposition 1B Money and Authorize Round II of Funding for Cities

The initial allocation of \$550 million in Prop. 1B funds for local transportation projects has just begun to flow to cities. The process should be sped up because cities can put this money to work quickly with the tremendous unmet need on the local transportation system. *The Legislature should appropriate the remaining \$450 million designated for city transportation projects.*

#### Expedite Allocation of Proposition 1C Infill Infrastructure and TOD Funds

Prop. 1C includes \$850 million for infill infrastructure and \$300 million for transit oriented development projects (TOD). Of those amounts, the FY 2007-08 budget appropriated just \$240 million for infrastructure, \$60 million for brownfields and \$95 million for TOD funds. Competition for these funds for local projects will be intense. *The Legislature should appropriate the balance of these funds so that they may be distributed to qualifying projects.*

#### Expedite Allocation of Park Funds

Prop. 1C contains \$200 million for parks associated with additional housing approvals. Plus, Prop. 84 contains \$400 million in funding for parks in disadvantaged communities. Unfortunately, none of these funds were allocated in the FY 2007-08 budget nor does the Governor's proposed FY 2008-09 budget propose an allocation. *Don't let these voter-approved funds be left idle—the Legislature should allocate the funding immediately with balanced and reasonable application criteria.*

#### Local Governments Need More Flexibility to Raise Revenue for Infrastructure

While the recent voter-approved infrastructure bonds are a positive investment for California, the state lacks the financial capacity to fully address its infrastructure backlog as well as to expand infrastructure to accommodate its projected continued rapid population growth. *State infrastructure bonds can be approved with a majority vote. Local governments need similar flexibility.*

## **The Issue: State Budget**

On Jan. 8, Gov. Arnold Schwarzenegger said in his State of the State address:

*"It used to be that Sacramento plugged its deficits by just grabbing money anywhere it could; pension funds, local government, bonds, gas taxes that were meant for transportation. But we tightened that noose by taking away those options. We passed Proposition 1A, Proposition 58, and Proposition 42. We now have no way out except to face our budget demons."*

The Governor proposed a two-pronged approach to deal with both the projected budget deficit for FY 2007-08 (current fiscal year) and the structural deficit in FY 2008-09 (next fiscal year).

Prong one: He declared a fiscal emergency, announced his intent to sell the remaining \$3.3 billion in Economic Recovery Bonds, and proposed a package of mid-year adjustments which the Legislature in late February. To address cash flow issues, these adjustments included deferral of \$500 million in local Highway Users Tax.

Prong two: The Governor's proposed FY 2008-09 budget is based upon a 10 percent across-the-board cut to state agencies and programs and proposed a constitutional amendment. The Budget Stabilization Act would cap spending when revenues are high, transferring the excess revenues to a reserve fund to backfill state revenue shortfalls in future years.

The proposed 10 percent cuts would directly impact cities by reducing booking fee reimbursements, the Citizens Option for Public Safety (COPS)/Juvenile Justice Crime Prevention Act Program, the Williamson Act and more. These cuts reflect the identical level of reduction as most other state programs. Many local officials are concerned about the proposed early release of prisoners and state park closures.

### **Key Messages**

#### **The Economic Downturn Hurts Both Local and State Budgets**

The widespread economic downturn has had a devastating impact on city budgets. Recent revenue decreases in local property tax, sales tax and fees charged for services has forced many cities to cut critical programs and even lay off city employees. *City officials recognize that the same forces affecting their budgets have put the state in a similar budget challenge.*

#### **Support the Principle of Proposition 1A**

City officials greatly appreciate the that neither Gov. Arnold Schwarzenegger's proposed budget nor the Legislative Analyst's "alternative budget" proposes to divert city property taxes as part of the state budget solution. When Proposition 1A was approved in 2004 with more than 84 percent of the vote, it was clear that voters agreed with the importance retaining local funds for police, fire, library, parks and other community services. *State diversions of local tax dollars creates distrust in government, leading to a tightening spiral of voter initiatives.*

#### **Oppose Proposals That Take City Money to Fund State Program Responsibilities**

Cities recognize that exploring options to realign or reorganize state services is an appropriate policy discussion given the current fiscal crisis. However, when the state realigns responsibility to another level of government, it should also shift the specific state revenues to fund the program. *Legislators should reject the Legislative Analyst's recent proposal to shift state parole responsibility to counties and pay for it by taking city Proposition 172 public safety dollars, eliminating the COPS program, eliminating Booking Fee reimbursements, and shifting special district property tax dollars.*

#### **Support Solutions that Restore Budgetary Stability**

Cities support efforts by the Legislature and the Administration to develop permanent solutions to the state budget deficit in both the short and long term. The recent "boom and bust" cycles in the state budget creates an unstable environment where it is difficult for all involved to effectively plan. *The state faces too many challenges to not have a better fiscal game plan for its future.*