



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Adopt a Resolution supporting Prop. 1A limiting the State's ability to reallocate local revenues in order to achieve State policy goals and requiring the State to reimburse local governments for mandated programs and services on a timely basis.

MEETING DATE: October 6, 2004

PREPARED BY: Interim City Manager

RECOMMENDED ACTION: That the City Council adopt a Resolution Supporting Prop. 1A limiting the State's ability to reallocate local revenues in order to achieve State policy goals and requiring the State to reimburse local governments for mandated programs and services on a timely basis.

BACKGROUND INFORMATION: The following information is provided to Council by Debbie Olson, Regional Representative with League of California Cities. Ms. Olson will be present during the meeting to discuss Proposition 1A and to answer questions regarding this matter.

Proposition 1A, a Constitutional amendment placed on the ballot by the Legislature as part of the 2004-05 budget agreement, would fundamentally change the fiscal relationship between the State and local governments. Proposition 1A limits the State's ability to reallocate local revenues in order to achieve State policy goals and requires the State to reimburse local governments for mandated programs and services on a timely basis. Proposition 1A is supported by the League of California Cities, the California State Association of Counties, the California Special Districts Association, and Governor Schwarzenegger.

In brief, Proposition 1A would amend the State Constitution to:

- Allocate revenues from current VLF rate and require the State to reimburse counties and cities for losses due to any future VLF rate decrease;
- Prohibit the Legislature from reducing the share of property tax revenues allocated to any county, city or special district below the level required on November 3, 2004;
- Suspend State-imposed requirements ("mandates") on counties, cities, and special districts in any year in which the state does not fully reimburse local governments for the costs of fulfilling the requirements.

APPROVED:

A handwritten signature in cursive script, appearing to read "Janet S. Keeter".
Janet S. Keeter, Interim City Manager

Attached are a number of documents provided by the Yes on 1A organization, setting forth arguments in favor of this measure. The arguments in favor of Constitutional protection for local government revenues are well-known to the City Council, as these issues have been in the forefront of Council's budget deliberations for several years. Earlier this year, the Council passed a general resolution in support of constitutional protection, but not any specific measure.

At the bottom line, Proposition 1A prohibits the State from raiding local government revenue sources in future years. Specifically, the State may borrow only twice in 10 years, and not before full repayment of the VLF Backfill Gap borrowed last year, and only in demonstrable State budget emergencies.

If Proposition 1A does not pass, Lodi, along with all other California local governments, will find themselves subject to those interests in the State Legislature who believe that all local government revenue collected in California should be controlled and allocated by State government rather than by locally elected officials. The continued deterioration of local control over local spending priorities will surely continue unabated if Proposition 1A does not pass.

Finally, Proposition 1A replaces the need for Proposition 65. Proposition 65 was put on the ballot earlier this year before this historic agreement with the Governor and the Legislature was reached. Proposition 1A is a more flexible approach with broad, bipartisan support of the Legislature. All of the official proponents of Proposition 65 are now supporting Proposition 1A instead of Proposition 65.

If both measures pass and Proposition 1A receives a greater number of votes, none of the provisions of Proposition 65 will take effect. If both measures pass, but Proposition 65 receives more votes, then the tax shift included in the 2004-05 budget agreement would be prohibited but other details common to both measures will need to be sorted out by a constitutional committee and/or the courts.

FUNDING: None



Janet S. Keeter
Interim City Manager



THE FACTS ABOUT PROPOSITION 1A

www.YesonProp1A.com

THE PROBLEM

LOCAL TAXPAYERS AND PUBLIC SAFETY SERVICES ARE THREATENED

For more than a dozen years, the state legislature has been taking local tax dollars that local governments use to provide vital services like fire protection, paramedic response, law enforcement, healthcare, parks and libraries. The State has taken more than \$40 billion from cities, counties and special districts in the last 12 years. ***If these raids continue, it could mean fewer firefighters, fewer law enforcement officers and longer waits at emergency rooms -- or higher local taxes and fees.***

THE SOLUTION = PROPOSITION 1A

HISTORIC AGREEMENT TO PROTECT LOCAL TAXPAYERS AND VITAL LOCAL SERVICES

Prop 1A is a historic bipartisan agreement between Governor Arnold Schwarzenegger, local governments, legislators, public safety officials, healthcare advocates, taxpayers and community leaders. **Prop 1A prevents the State Legislature from taking and using local government funds.** Prop 1A would keep more of our local tax dollars local and would protect funding for vital local services like fire and paramedic response, law enforcement, healthcare, parks, libraries, and transportation.

What Proposition 1A Does:

- ✓ Restricts the State Legislature's ability to raid local government funding, including local government share of *existing* sales taxes, property taxes and VLF revenues.
- ✓ Protects funding for local services like fire and paramedic response, law enforcement, emergency and trauma care, parks, roads, libraries, transportation and more.
- ✓ Requires the State to provide funding for any program or service the State forces local governments to provide. If the State fails to provide funding, Legislature must repeal these state-mandates.
- ✓ Provides flexibility in a state budget emergency. Prop 1A allows the State to *borrow* local government revenues if funds are needed in fiscal emergency to support schools or other state programs.

What Proposition 1A DOES NOT Do:

- Does not raise taxes. Prop 1A helps ensure local governments don't have to raise taxes or fees in the future to make up for revenues raided by the State Legislature.
- Does not reduce funding for schools or any other state programs or services.
- Does not increase funding to local governments.
- Does not prevent the state from borrowing local funds in times of fiscal emergency, or shut the door to future reforms of the state-local fiscal relationship.

Proposition 1A Replaces Need for Prop 65.

A coalition of local government officials placed Proposition 65 on the ballot earlier this year to stop the State from taking local government funding. HOWEVER, that was before passage of the historic bipartisan agreement that put Prop 1A on the ballot. Prop 1A is a better, more flexible approach to protecting local services and local tax dollars. That's why ALL the official proponents of Prop 65 are now supporting Proposition 1A.



Frequently Asked Questions About Proposition 1A

Q: What would Prop 1A do?

A: Proposition 1A would prevent the state legislature from taking and using local tax dollars that local governments use to provide essential services like fire and paramedic response, law enforcement, emergency and trauma care, parks, roads, libraries, transportation and more. Specifically, Prop 1A prohibits the State Legislature's ability to lower the existing city, county and special district's existing share of sales taxes, property taxes and VLF revenues.

Proposition 1A also requires the state to reimburse local governments for the cost of programs and services it forces cities, counties and special districts to provide. If the state fails to provide reimbursement to local governments for state-mandated local programs, the mandate must be suspended, except for specified employee rights and benefits.

Q: Why is Prop 1A needed?

A: For more than a dozen years, in both good fiscal times and bad, the state legislature has been raiding local tax dollars to pay for state responsibilities – more than \$40 billion over the past 12 years. This practice has starved local communities of the funds needed to pay for vital services like fire protection, paramedic response, law enforcement, healthcare, parks and libraries. ***If these funding raids continue, it could mean fewer firefighters, fewer law enforcement officers and longer waits at emergency rooms -- or higher local taxes and fees.***

The system is broken. Voters must act now to protect local revenues for local services from being taken by the State.

Q: Who supports Prop 1A?

A: Proposition 1A is a historic, bipartisan accord reached among local government leaders, public safety representatives, Governor Arnold Schwarzenegger, Democrat and Republican state legislators, healthcare advocates, taxpayer groups, business and labor leaders, and many more. The coalition in support of Prop 1A is growing daily.

Q: Will Prop 1A raise taxes?

A: NO. Proposition 1A will not raise taxes. It simply ensures that *existing* local tax dollars continue to be dedicated to local services. In fact, Prop 1A helps *ensure local governments aren't forced to raise taxes or fees to make up for revenue raided by the State.*

Q: What happens in the event of a fiscal emergency? Will this measure tie the legislature's hands in passing a budget or create more problems during the next state fiscal crisis?

A: Prop 1A was intentionally written to allow *flexibility* and provide the Governor and legislature with options – but only in the event of a “significant state fiscal hardship”. Under the provisions of Prop 1A, beginning in 2008-09, if the Governor proclaims a “significant state fiscal hardship”, the Legislature may suspend the constitutional protection and may **borrow** local property taxes *only* under following conditions:

- A separate urgency bill must be passed by a 2/3 vote of Legislature;
- The Legislature must pass a law to fully repay the loan with interest within 3 fiscal years;
- New loans are prohibited until prior loans have been repaid;
- No more than two loans may occur during any ten-year period;
- The loan amount is capped at 8% of local government property tax amount (equivalent of approximately \$1.3 billion in today's property tax dollars);

While Prop 1A contains flexibility in a state fiscal hardship, it also prevents the state from using local government funds any time legislators choose. It also requires that future state reductions be repaid in full.

Q: Will Prop 1A erode state funding for schools or education?

A: No. Prop 1A was carefully written to ensure that it does not reduce funding for education or schools by one dime. Under Proposition 98, schools are guaranteed a level of funding from the state – and Prop 1A does not change that.

Q: Does Prop 1A give more protection to local government than schools currently receive?

A: NO. Under Proposition 98, schools are guaranteed a minimum amount of funding out of the state general fund and Proposition 1A does not impact those protections at all. Further, comparing the funding guarantees for schools with Prop 1A is an apples-to-oranges protection. Proposition 98 guarantees schools a specific amount of State General fund revenues. Proposition 1A simply protects revenues that are LOCAL GOVERNMENT revenues, but that the state has been taking for more than 12 years.

Q: What about other state programs? Will this measure reduce funding for state programs like roads and prisons?

A: Prop 1A simply prevents the state from raiding local revenues. The state still has flexibility over its own revenues.

Q: Doesn't Prop 1A just add to the state's fiscal woes by initiating further "ballot-box-budgeting" that puts restrictions on how it can spend its revenues?

A: No. The initiative does not tell the state how to spend the state's own revenues (as some propositions have done). What it does is prevent the state from raiding local government revenues for state purposes. This will mean that, for the first time in many years, local communities will be have the certainty and predictability they need to plan and provide for current and future service needs.

Q: Will this measure prevent state fiscal reform efforts?

A: No. The first and most important step in reforming the troubled State-Local fiscal relationship is to protect local government funding from continual state raids. Prop 1A would accomplish this important first step, while also leaving the door open for more comprehensive fiscal reform in the future. Specifically, Prop 1A would retain authority for the Legislature to approve the exchange of local sales tax for an equal amount of property tax when requested by local agreements. Any type of voluntary revenue exchange agreement must be revenue-neutral for the impacted local governments.

Q: Does this measure increase revenues to local governments?

A: No. Prop 1A simply prevents the state Legislature from further reducing existing levels of local government revenues.

Q: Why doesn't Prop 1A attempt to recollect lost ERAF property tax dollars?

A: Prop 1A was intentionally drafted to draw a line in the sand and prevent future state legislative raids of local government funding. While local governments and services are still deprived by the ongoing state raid of property taxes, given the state of California's fiscal health, we believe a more responsible approach at this time is to "stop the bleeding" at current levels.

Q: What happened to Proposition 65, which is also on the November ballot and attempts to protect city, county and special district revenues from state raids?

A: Our coalition placed Proposition 65 on the ballot earlier this year, prior to the historic, bipartisan July agreement that placed Prop 1A on the November ballot. After Prop 65 qualified for the ballot, Governor Schwarzenegger approached our coalition and asked that we work with him on an alternative local government protection measure. We agreed to provide the state with short-term contributions from local governments to help the state out of its immense budget problems, and the Governor agreed to work with the legislature to place Prop 1A on the ballot and to actively campaign for passage of Prop 1A this Fall. Proposition 65 will continue to be on the ballot, but all of the official sponsors of Prop 65 are now opposing 65 and supporting Prop 1A as a better, more flexible approach to protect funding for local governments and local services.

Q: What happens if both Proposition 65 and Prop 1A pass?

A: Proposition 1A was written so that if it gains more votes than Proposition 65, it supersedes Prop 65 in its entirety. Prop 1A contains language that specifically says that Prop 1A is a "comprehensive and competing alternative" to Prop 65, and that "it is the intent of the people that this measure supersedes in its entirety Prop 65", if Prop 1A gets more votes.

RESOLUTION NO. 2004-209

A RESOLUTION OF THE LODI CITY COUNCIL SUPPORTING
PROPOSITION 1A LIMITING THE STATE'S ABILITY TO
REALLOCATE LOCAL REVENUES IN ORDER TO ACHIEVE STATE
POLICY GOALS AND REQUIRING THE STATE TO REIMBURSE
LOCAL GOVERNMENTS FOR MANDATED PROGRAMS AND
SERVICES ON A TIMELY BASIS

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WHEREAS, state government currently seizes more than \$5.2 billion annually in local property tax funds statewide from cities, counties, and special districts, costing local governments more than \$40 billion in lost revenues over the past 12 years; and

WHEREAS, these ongoing shifts and raids by the state of local property tax funds and other funding dedicated to local governments have seriously reduced resources available for local fire and paramedic response, law enforcement, public health and emergency medical care, roads, parks, libraries, transportation, and other essential local services; and

WHEREAS, these funding raids also add pressure for local governments to increase fees and taxes to maintain basic local service levels; and

WHEREAS, this drain of local resources has continued even during periods when the state's budget has been overflowing with surpluses; and

WHEREAS, Proposition 1A is an historic measure that will appear on the November 2004 statewide ballot that would limit the State's ability to take and use local government funding; and

WHEREAS, by protecting local government funding, Prop 1A would protect local public safety, healthcare, and other essential local services; and

WHEREAS, Prop 1A will not raise taxes and, in fact, will help reduce pressure for local fee and tax increases by limiting state raids of local government funding; and

WHEREAS, Prop 1A does not reduce funding for schools or any other state program or service, and Prop 1A was carefully written to allow flexibility in the event of a state budget emergency; and

WHEREAS, Prop 1A is supported by a bipartisan, diverse coalition including Governor Schwarzenegger, Democrat and Republican legislative leaders, local government officials, public safety representatives, healthcare, business, labor, and community leaders.

NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby support Proposition 1A, the statewide ballot initiative that will prevent the state from further taking local government revenues; and

BE IT FURTHER RESOLVED that the Lodi City Council does hereby direct the City Clerk to send a certified copy of this resolution to Yes on 1A - Californians to Protect Local Taxpayers and Public Safety (Fax: 916-442-3510 or Mail: 1121 L Street, #803, Sacramento, CA 95814).

Dated: October 6, 2004

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I hereby certify that Resolution No. 2004-209 was passed and adopted by the City Council of the City of Lodi in a regular meeting held October 6, 2004, by the following vote:

AYES: COUNCIL MEMBERS – Beckman, Hitchcock, and Howard
NOES: COUNCIL MEMBERS – None
ABSENT: COUNCIL MEMBERS – Land and Mayor Hansen
ABSTAIN: COUNCIL MEMBERS – None


SUSAN J. BLACKSTON
City Clerk



FACSIMILE COVER SHEET

CITY CLERK'S OFFICE
221 WEST PINE STREET - P.O. BOX 3006
LODI, CALIFORNIA 95241-1910
PHONE (209) 333-6702 FAX (209) 333-6807
cityclrk@lodi.gov or jperrin@lodi.gov

DATE: October 7, 2004

FROM: Jennifer M. Perrin, CMC
Deputy City Clerk

TO: Yes on 1A – Californians to Protect
Local Taxpayers and Public Safety
(916) 442-3510

COMMENTS: Attached is Resolution No. 2004-209, adopted by the Lodi City Council on October 6, 2004, supporting Proposition 1A.

NOTE: A certified copy has been mailed as well.

THIS TRANSMITTAL CONTAINS 3 PAGE(S), INCLUDING THIS COVER SHEET.