



CITY OF OAKLAND
CITY COUNCIL

FILED
OFFICE OF THE CITY CLERK
OAKLAND

09 MAY 20 PM 3:07

LEGISLATIVE ANALYST MEMORANDUM

To: Finance and Management Committee
From: Sabrina Landreth, Legislative Analyst
Date: May 26, 2009
Re: **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**

SUMMARY

On May 14, 2009 the Governor proposed that the State borrow over \$2 billion in local property taxes from cities, counties and special districts to balance the State budget, in the event that the revenue measures on the May 19th ballot fail. The State would have three years to repay this principal with interest. Under the proposal, the City of Oakland would lose up to \$11.8 million in property tax revenues for the next fiscal year. The Governor has also proposed legislation to create a joint powers authority to allow local agencies to borrow against the State repayment as a group.

The attached Resolution states that the City has determined that it will experience a severe fiscal hardship if this proposal is adopted, and that the City strongly and unconditionally opposes this and any other State proposals to borrow or seize any additional local funds, including property tax, redevelopment tax increment, and the city's share of the Prop. 42 transportation sales tax.

BACKGROUND

Since the early 1990s the State of California has seized over \$8.6 billion of city property tax revenues statewide to fund the State budget. In FY 2007-08 alone the State seized \$895 million in city property taxes statewide. An additional \$350 million in local redevelopment funds were seized in FY 2008-09. In November 2004, California voters approved Proposition 1A, an amendment to the California State Constitution intended to restore predictability and stability to local government budgets. Among other things, Proposition 1A prohibits the Legislature from reducing the share of property tax revenues going to the cities, county and special districts in any county, and shifting those shares to the schools or any other non-local government function. However, under specific conditions, the Legislature may suspend the property tax revenue

protection provisions of Proposition 1A. The Legislature may “borrow” not more than 8% of total property tax revenues (currently about \$2 billion) if:

1. the Governor issues a proclamation of “severe fiscal hardship”;
2. the Legislature enacts an urgency statute suspending Proposition 1A property tax protection with 2/3 vote of each house; and
3. the Legislature enacts a law providing for full repayment of the borrowed funds plus interest within three years.

CONCLUSION/ RECOMMENDATION

The League of Cities recommends Oakland adopt the attached Resolution, finding a severe fiscal hardship will exist if additional City property tax revenues are seized and additional unfunded mandates are adopted by the State.

09 MAY 20 PM 3:06
INTRODUCED BY COUNCIL MEMBER _____

APPROVED AS TO FORM AND LEGALITY


DEPUTY CITY ATTORNEY

OAKLAND CITY COUNCIL

RESOLUTION No. _____ C.M.S.

**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**

WHEREAS, 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

WHEREAS, 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

WHEREAS, in FY 2007-08 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 FY 2008-09; and

WHEREAS, 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

WHEREAS, 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

WHEREAS, on May 5 the 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

WHEREAS, 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

WHEREAS, the Legislature is currently considering hundreds of bills, many of which would impose new costs on local governments that can neither be afforded nor sustained in this economic climate; and

WHEREAS, state agencies are imposing, or considering, many regulations imposing unfunded mandates on local governments without regard to how local agencies will be able to comply with these mandates while meeting their other responsibilities; and

WHEREAS, 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

WHEREAS, the City of Oakland 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

WHEREAS, 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; and

WHEREAS, this Resolution is urgent as the Governor proposed borrowing from cities if the various measures on the May 19th ballot fail and such measures have failed and it is imperative that the City Council immediately express to the Governor, state senators and state assembly members the financial hardship that the proposed borrowing would have on Oakland before the measure is implemented; now, therefore be it

RESOLVED, that the City Council of the City of Oakland has determined that 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

FURTHER RESOLVED, that the City of Oakland strongly and unconditionally opposes the May 5 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 Prop. 42 transportation sales tax; and

FURTHER RESOLVED, that the City of Oakland strongly urges the state 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.

FURTHER RESOLVED, that the City Clerk shall send copies of this resolution to the Governor, our state senator(s), our state assembly member(s) and the League of California Cities.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2009

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, DE LA FUENTE, KAPLAN, KERNIHGAN, NADEL, QUAN, REID and PRESIDENT
BRUNNER

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____
LATONDA SIMMONS
City Clerk and Clerk of the Council
of the City of Oakland, California