



DATE: May 26, 2009
TO: Mayor and City Council
FROM: City Manager
SUBJECT: Resolution to Oppose the Taking of Local Revenue by the State of California

RECOMMENDATION

That Council adopts the attached Resolution opposing any taking or borrowing of local City of Hayward revenue by the State of California, and authorizes the Mayor to send a letter to the Governor and State Legislators expressing the City's position and attaching the adopted Resolution.

BACKGROUND

With the passage of Proposition 1A in 2004, the State constitution allows the State to borrow up to 8% of local governments' property tax revenues, which then must be repaid within three budget years with interest. The amount that can be borrowed is determined by the amount of property taxes received by cities, counties, and special districts in the preceding year. Once the power to borrow is exercised, it cannot be employed again within ten (10) years.

In order to institute the borrowing, the Constitution requires the Governor to issue a proclamation of a severe state fiscal hardship and passage of a separate two-thirds vote bill. The bill should specify how interest will be paid since there is no provision in current law for this and the Constitution requires there be payment of interest provided by law.

According to reports from the State, local governments could borrow against the state's constitutional obligation to repay, thereby mitigating the impact of this reduction. However, in the current economic landscape, local governments are not easily finding available short term financing and could face difficulties borrowing these funds from the market. If they borrow, local government will incur substantial borrowing costs.

DISCUSSION

In the Governor's May Revision of the budget, Governor Schwarzenegger declared his intent to borrow from cities, counties, and special districts in the current fiscal year stating that the State constitution would allow the State to borrow just over \$2 billion dollars in FY 2010. This calculates to approximately \$3.6 million dollars from the City of Hayward.

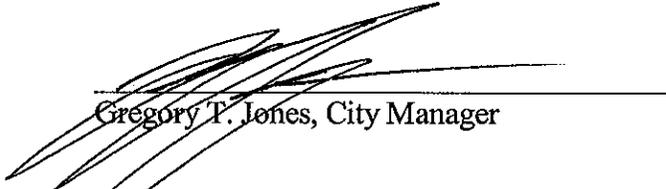
The City of Hayward has taken several responsible steps to manage the devastating impacts of the local and national economy, and to balance the City's budget while staying ahead of the economic downturn hitting all governments. This has included reducing operational costs, reaching agreement on employee contracts for give backs and participation in the cost reduction, gaining efficiencies in operations, eliminating staff positions, and reducing the scope of critical programs. Most recently, the community stepped forward and passed Measure A to provide additional revenues to protect critical local services. Even with these proactive steps, the City continues to face a challenging financial environment until the economy turns around.

Staff concurs with the previous statement made by the Governor that borrowing local property taxes and Prop. 42 transportation funds is irresponsible. It only deepens the state's structural deficit and creates an obligation to repay. In the meantime, local services will be cut severely and citizens' safety will be put at risk. This is precisely the type of budgeting that California needs to avoid. The state needs to balance its budget within its own resources.

The City of Hayward should vigorously oppose any state borrowing of local revenue. All local revenue should be kept locally to provide services to the residents, property owners, and businesses paying the taxes that generate that revenue.

FISCAL IMPACT

If the State's efforts are successful in borrowing the over \$2 billion dollars from California's cities, counties, and special districts, the direct impact on the City of Hayward will be approximately \$3.6 million dollars. Given the dramatic drop in our own revenue sources over the last few years, and the expected continuation of a flat economy for the next few years, the loss of \$3.6 million dollars would diminish our remaining reserves and/or further erode our ability to deliver essential services.



Gregory T. Jones, City Manager

Attachment: Draft Resolution

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. 09-_____

mal
5/22/09

Introduced by Council Member _____

RESOLUTION OPPOSING ANY BORROWING OF LOCAL REVENUE BY THE STATE OF CALIFORNIA

WHEREAS, Proposition 1A, which was passed by the voters of California in 2004, allows the State of California to borrow up to 8% of property tax revenue belonging to the cities, counties and special districts in the State; and

WHEREAS, the Governor's May Budget Revision clearly states his intent to exercise the option to invoke Proposition 1A and borrow over \$2 billion dollars from local government; and

WHEREAS, such borrowing would result in the temporary loss of \$3.6 million dollars from the City of Hayward at a time when every dollar is needed locally to provide critical local services and the City's entire revenue picture is the bleakest it has been in recent history; and

WHEREAS, the City declared its own fiscal emergency in February 2009; and

WHEREAS, the Mayor, City Council and staff have taken a number of significant and responsible actions over the past two years to manage the impacts of the current economic situation and resultant budgetary and service impacts. Such actions include the elimination of 50 General Fund, non-sworn positions, employee salary concessions, mandatory unpaid, holiday furloughs and the closing of City facilities, and the significant use of General Fund reserves; and

WHEREAS, the projected budget deficit for Fiscal Year 2010 is \$10-12 million, and there remains no possible way for the City of Hayward to absorb additional personnel reductions in the General Fund without making deep cuts in the organization's ability to deliver even basic, core services; and

WHEREAS, the State needs to exercise responsible budget management actions within its own organization and balance its budget utilizing its own resources, as local government must do by law.

NOW THEREFORE, BE IT RESOLVED that the City Council of the City of Hayward does vigorously oppose any borrowing of local government revenues by the State of California

