

# 2009-10 May Revision Option (Dollars in Thousands)

## Local Government Financing Title: Borrowing from Local Government

	GF	FF	Other	Total Reductions	PY Reduction
<b>2009-10</b>					
<b>Workload Budget</b>					
<b>Reductions</b>	<b>\$2,006,000</b>			<b>\$2,006,000</b>	
<b>Governor's Budget</b>					

### **Program Description**

The constitution allows that up to 8% of local governments' property tax revenues can be borrowed by the state and 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. Borrowing from local government in the 2009-10 fiscal year would provide \$2.006 billion in solutions.

### **Program Reduction**

An option to address the potential budget shortfall would be to borrow property tax revenues (Proposition 1A, 2004) from local governments.

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.

If local governments are unable to borrow or can borrow insufficient amounts, local government may have to make reductions to locally funded services. Property tax revenues are used by local governments for a variety of services including police and fire, waste collection, road maintenance, libraries and other services.

### **Reduction Impacts**

Specific impacts of this reduction will vary by local jurisdiction and will in part depend on the ability of local government to obtain borrowing from the market. This reduction could result in cuts to locally funded services such as police and fire, waste collection, road maintenance, libraries and other services.

## **2009-10 May Revision Option (Dollars in Thousands)**

Based on a survey of the top 15 California cities in terms of property tax revenue collection estimates (based on 2006-07 collections), if adopted, this option could result in reductions to their budgets, as follows:

Los Angeles	\$67,712,897
San Francisco	\$61,833,541
San Diego	\$20,054,088
San Jose	\$12,810,380
Sacramento	\$7,425,680
Long Beach	\$6,604,224
Oakland	\$6,363,535
Fresno	\$4,607,868
Newport Beach	\$4,475,138
Pleasanton	\$3,202,884
Bakersfield	\$3,071,241
Riverside	\$3,051,165
Fremont	\$3,025,522
Berkeley	\$2,951,759
Huntington Beach	\$2,886,124

Reductions, if not replaced by local borrowing, would come on top of reductions most cities and counties are considering or already budgeting to address shortfalls in local sales and property tax revenues. Finance is estimating property taxes to decline by an average of 4 percent in 2009-10 after growing only about 2 percent 2008-09 and sales taxes are declining by about 15 percent from 2007-08.

Increases in layoffs of police, fire, public health, recreation and other tax supported workers are likely. Due to federal and state laws, counties may have limited ability to reduce costs in some programs where financial responsibility is shared, but they can make some employee compensation reductions and implement other savings. Special districts and cities often have other fees that could be raised to backfill reductions and maintain services. However, basic public protection can generally not be fee supported. Districts that are only property tax supported would face up to 8 percent budget reductions.

### **Timing of Implementation**

The reduction could be legally effective on July 1, 2009, if enacted as an urgency statute. The statute would provide for the timing and mechanism of payment to the state. Locals receive property tax in December and April or shortly thereafter. Taking funds from them before that could cause a local cash crunch and some may simply not pay timely.

### **Statutory and/or Regulatory Change**

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. It is likely locals will ask that their full cost of borrowing be covered by state interest payments.