

# Agenda Report

**TO:** CITY COUNCIL                      **DATE:** September 8, 2003

**FROM:** City Manager

**SUBJECT: OPPOSITION TO PROPOSITION 53: CALIFORNIA TWENTY-FIRST CENTURY INFRASTRUCTURE INVESTMENT FUND RESOLUTION CHAPTER 185, STATUES OF 2002 (ACA 11, RICHMAN)**

**RECOMMENDATION:**

It is recommended that the City Council:

1. Oppose Proposition 53, the California Twenty-First Century Infrastructure Investment Fund Resolution Chapter 185, Statues of 2002 (ACA 11, Richman); and
2. Authorize the Mayor to send letters to the appropriate authorities conveying Pasadena's position on this matter.

**PROPOSITION SUMMARY:**

Proposition 53 is a Legislative Constitutional Amendment which would dedicate funds for state and local infrastructure. Generally speaking Proposition 53 would require specified percentages (first set-aside in 2006-07 is 1%, it then increases 0.3% each year to 3% and is then fixed) of General Fund revenues to be set-aside for acquisition, construction, rehabilitation, modernization or renovation of infrastructure. The measure would generally require that the funds in the infrastructure fund be allocated in specified amounts to four infrastructure areas: transportation, education, parks and natural resources and water. Of the funds in each of these four categories, 50 percent would be available for state projects and 50 percent for local projects. The funds for the local projects would be continuously appropriated for those purposes.

**BACKGROUND:**

Proposition 53 has been placed on the October 7, 2003 Election ballot. The intent of Proposition 53 is to formally commit General Fund revenue to pay-as-you-go capital outlay projects for both state and local governments by the

establishment of the California Twenty-First Century Infrastructure Investment Fund.

Expenditures from the fund must be divided equally between state and local projects, other than school and community college district projects, including: local street, transportation, water, park and open space projects. Proposition 98 school funding guarantees are unchanged by Proposition 53. The amount of the first set-aside scheduled for 2006-07 is 1%; then it increases 0.3% annually to 3% and then remains fixed. Set-asides are subject to increase, decrease or suspension with revenue increases and decreases.

AB 1473 of 1999 requires the State to produce a five-year infrastructure plan. While there is clearly a demonstrated need for investment in the state's infrastructure, this would require \$54.2 billion of the State General Fund over the next five years per infrastructure plan.

Proposition 53 locks in spending increases out of limited existing revenues, meaning that money may come at the expense of other important services such as education, health care and public safety. Setting money aside for public building projects would exacerbate California's budget problems even worse by reducing General Fund dollars where the worst problem exists. Although limiting the State's flexibility may not necessarily be a bad thing, there should be a capital budget/infrastructure plan that is adhered to, but it is felt that Proposition 53 is a good idea, which has, unfortunately, been presented at the wrong time. Prudent fiscal planning would dictate that the State take steps to dedicate a portion of their budget to reinvesting in the State's infrastructure, but again, now is now the time.

During a financial crisis such as California is experiencing, it is not recommended to add another binding claim to the State General Fund. In a time of Budgetary uncertainty it would appear to be unwise to limit the State fiduciary options in any additional manner.

The League of California Cities supported ACA 11, as did the City of Pasadena, the precursor to Proposition 53, but has not taken an official position on Prop. 53, as yet. It has been endorsed by Jon Poupal, President of the Howard Jarvis Taxpayers Association, Allan Zaremberg, President, California Chamber of Commerce and Caprice Young, Past President, Los Angeles Unified School District.

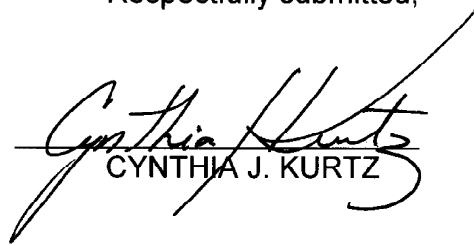
Key signatories opposed to Prop. 53 are Jack O'Connell, State Superintendent of Public Instruction, Lenny Goldberg, Executive Director, California Tax Reform Association and William Powers, Legislative Director, Congress of California Seniors.

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**FISCAL IMPACT:**

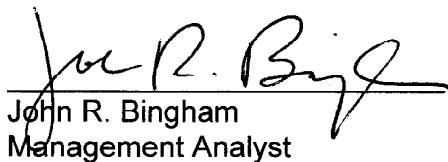
The amount of transfers from the General Fund to the infrastructure fund is difficult to determine. The Legislative Analyst's estimate for 2006-07 is \$850 million, increasing to several billion dollars when transfers reach the 3 percent maximum rate. Assuming an annual State General Fund revenue growth after 2002-03 of about 5 percent, the amount set aside for the infrastructure growth fund would grow to about \$4.5 billion in 2011-2012 and would grow thereafter by \$38 million for every \$1 billion in General Fund revenue growth. It can be anticipated that should Proposition 53 pass, it would put pressure on the State to raid City revenues to fix the growing fiscal problem.

Respectfully submitted,



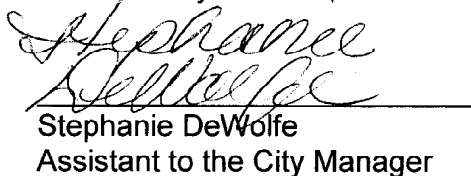
CYNTHIA J. KURTZ

Prepared by:



John R. Bingham  
Management Analyst

Reviewed by:



Stephanie DeWolfe  
Assistant to the City Manager