

Agenda Report

TO: City Council DATE: September 12, 2005
Through: Legislative Policy Committee
FROM: Cynthia J. Kurtz, City Manager
SUBJECT: RECOMMENDATION TO SUPPORT PROPOSITION 76 – "LIVE WITHIN OUR MEANS"

RECOMMENDATION

It is recommended that the City Council support Proposition 76 – "Live Within Our Means", an initiative placed on the November special election by Governor Schwarzenegger.

BACKGROUND

Over the years, state leadership has not demonstrated the ability to prudently manage the fiscal affairs of the State. Whenever there has been a significant surplus in State funds, there is a rush for tax cuts or increased spending. Then in weak economic times, the State does not have necessary reserves to cover short-term deficits. As a result, revenues traditionally going to cities, counties, special districts and school districts are shifted all for the sole benefit of the State. Over the past 20 years, Sacramento has taken over \$70 million of revenues away from the City of Pasadena.

Proposition 76 appears to be a step in the right direction towards establishing fiscal policies in Sacramento. While it may not address every possible scenario, it does require the State to establish and maintain reserves and imposes spending controls.

Proposition 76 attempts to constrain the amount the State spends by an annual growth index. In good economic times, revenues that cannot be spent under the Proposition are placed in reserve for appropriation during down cycles in the economy. Some key elements of Proposition 76 are:

- Annual State general fund and special expenditures may not exceed annual expenditure limits based on an average of revenue growth in the three prior years.
- Expenditure limits may be exceeded if the Governor declares a natural disaster emergency.
- If spending is expected to exceed the limit, the Governor must propose a plan to the Legislature that reduces expenditures or the Governor must reduce expenditures by executive order.
- If revenues fall below estimates, the Governor must propose a plan to the Legislature that reduces expenditures and may, if the Legislature does not act within 45 days, reduce expenditures to realign with revenues.
- If revenues exceed the expenditure limit, then the excess amount attributed to special funds is set aside in a reserve, dedicated for future use for purposes of the special fund.
- The excess revenue attributed to the general fund is allocated as follows:
 - 25% to the Budget Stabilization Account
 - 50% to repay outstanding debt obligations to Prop 98, the Deficit Recovery Bonds, and the Transportation Investment Fund (Prop 42)
 - 25% to a newly created School, Roads and Highways construction fund.
- Eliminates the authority to suspend the transfer of Proposition 42 monies to local governments after fiscal year 2007.
- Except for short-term loans that are repaid within the fiscal year in which the loan was made, prohibits transfers of funds from a special fund to the General Fund as a loan.
- Special funds loaned to the General Fund prior to July 1, 2006 must be repaid by July 1, 2021.

There are numerous other components to Proposition 76 including dealing with State mandates, Executive powers, future revenue increases and changes in Proposition 98, none of which appear to have a negative impact on local funding.

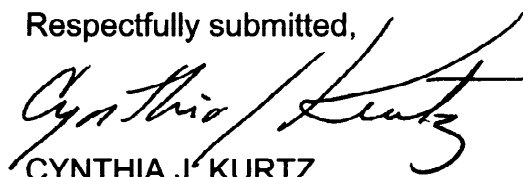
Proposition 76 will achieve a smoothing out of peaks and valleys in future state spending and will also provide much needed protection of Special Funds (including Prop 42 – gasoline sales tax) from future transfers to the state general fund. It will also provide for a faster payback (5 years vs. 15 years) of past due mandate reimbursements.

The League of California Cities Revenue and Taxation Policy Committee voted overwhelmingly to make a recommendation of support for Proposition 76 to the League Board.

FISCAL IMPACT

Proposition 76 does not have any immediate fiscal impact on the City of Pasadena. It does appear to provide a level of fiscal responsibility on the State legislature and that could provide greater fiscal stability in future years.

Respectfully submitted,



CYNTHIA J. KURTZ
City Manager

Approved by:



Jay M. Goldstone
Director of Finance