

Agenda Report

DATE: January 8, 2002

TO: CITY COUNCIL
THROUGH: LEGISLATIVE POLICY COMMITTEE (12/18/01)
FROM: CYNTHIA J. KURTZ, CITY MANAGER
SUBJECT: OPPOSITION TO STATE ACTIONS RESULTING IN REDUCTION OF REVENUE TO LOCAL GOVERNMENTS

RECOMMENDATION:

It is recommended that City Council:

1. Request the City's State legislators to strongly oppose any 2002-2003 state budget that contains any cuts/reductions to city government revenue or reduces any current state funding to local government such as Vehicle License Fee (VLF) revenues;
2. Authorize the Mayor to submit correspondence to the appropriate authorities.

BACKGROUND:

The events of September 11, 2001, coupled with a cooling economy and the state energy crisis have placed city revenues in serious jeopardy in the upcoming debate over the 2002-2003 state budget. The Governor estimates the deficit to be between \$8 and \$14 billion, assuming the state will sell \$12.5 billion in bonds to reimburse the general fund for purchasing electricity during the recent energy "crisis." The Governor and others have talked about calling a special session before January to address the budget concerns. Many of the proposals to balance the State budget would redirect City revenue to State funded programs.

The most vulnerable city revenue is the state general fund "backfill" for the vehicle license fee (VLF) tax reduction started in 1999. That backfill figure is now \$3.7 billion for both cities and counties. Of this amount, approximately \$1 billion is revenue belonging to cities. Despite public assurances made to protect local government from any revenue loss from the tax cut, the backfill is being actively considered in scenarios to close the anticipated deficit.

City services and operations are already affected by the current economic downturn. Elimination of the VLF backfill equates to a "double hit" on local revenue and the impact of it is expected to be significant. Concerns across the state include:

- State cuts as deep as \$3.7 billion will jeopardize police, fire and emergency medical services, the front-line for public safety and homeland protection/response. Following the events of September 11, 2001, these programs cannot be put at risk.
- The recession of the early 1990s resulted in severe reductions to non-public safety services. These services are often directly related to community safety and well being (parks, libraries, homeless shelters, etc.) Non-public safety services will again be the hardest hit if the VLF backfill is eliminated.
- Cities have already had to eliminate or postpone vital capital projects. Further reduction of funding for such projects will result in significant deterioration of infrastructure that may never be reversed.

If the VLF backfill is eliminated, Pasadena stands to lose \$5.3 million annually as a direct cut to the General Fund. General Fund programs include public safety, parks and recreation, traffic and transportation, human services, and economic development.

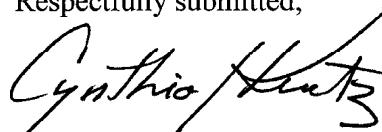
While staff has not seen specific details, there appears to be some discussion in Sacramento regarding further shifts in property taxes (ERAFII). Current staff projections indicate that the City forgoes over \$4 million each year in property tax revenues due to previous ERAF (Education Relief Augmentation Fund) decisions. To further deteriorate this revenue source, along with other potential state actions would definitely impact the City's ability to maintain current service levels as well as the City's bond rating.

If Council approves this recommendation, staff will also begin working with the media to educate the public regarding the significant impacts of State action on City services. Communication should also be initiated with the labor unions and employee organizations to emphasize the potential effects of State action on the City's workforce. A broadbased campaign that includes the voices of the public and the employees will send the strongest message.

FISCAL IMPACT

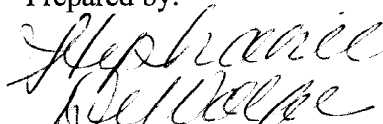
Based upon an analysis completed several years ago, only about 20% of the City's general fund budget can be considered "discretionary." This means holding virtually all public safety services harmless from any budget reductions, meeting the City's utility and debt service costs, and still maintaining minimum service levels in other areas. At fiscal year 2002 budget levels, that means that approximately \$30 million of the City's total \$150 million general fund budget is discretionary. If the City loses all of the current VLF backfill, it would lose \$5.3 million. This represents about 17.7% of the City's discretionary budget.

Respectfully submitted,



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