



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: May 19, 2009
TO: Mayor and Councilmembers
FROM: Administration Division, Finance Department
SUBJECT: State Proposal To Borrow Local Government Property Taxes

RECOMMENDATION:

That Council adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Finding a Fiscal Hardship will Exist if Additional Local Property Tax Funds are Seized and Additional Unfunded Mandates are Adopted by the State of California.

DISCUSSION:

With the State's budget crisis still unresolved and the May 19, 2009 budget-related ballot measures likely to be defeated, the State is facing a budget deficit of approximately \$21.3 billion. Even if the ballot measures pass, the State's budget deficit is estimated at approximately \$15.4 billion. The State's inability to directly address and responsibly solve the budget crisis has led the State Department of Finance to once again propose the time-honored tradition of raiding local government property taxes.

In response to past State raids on local government revenues, in 2004 California voters approved Proposition 1A by an overwhelming 84%. Proposition 1A prohibits the State from taking local government property taxes. It does, however, allow the State to borrow local government property taxes under very limited circumstances. Proposition 1A allows the State to borrow up to 8% of local government property taxes for up to a 3-year period. 8% of statewide local property taxes is approximately \$2 billion. The borrowed property taxes must be repaid, with interest, within three years. In order to do this, the Governor must declare a "severe fiscal hardship" and the Legislature then must approve the borrowing by passing urgency legislation by a two-thirds super-majority.

The State Department of Finance's proposal is for the State to borrow the full 8% allowed under Proposition 1A. For our city, that would be the loss of approximately \$2.3 million of our fiscal year 2010 property tax revenue. While not providing any meaningful solution to the State's structural budget deficit, the borrowing of local government property taxes will impose an additional fiscal hardship on local governments during a time when we are already dealing with our own severe fiscal problems as a result of the economic crisis.

As mentioned above, the State Department of Finance's proposal would result in the loss of property tax revenue of approximately \$2.3 million for up to three years. This is in addition to the ongoing impacts of the permanent ERAF shifts first implemented in the 1990's. Under those ongoing shifts, the City is already losing approximately \$2.9 million of property tax revenue each fiscal year. Since these ongoing ERAF shifts were first implemented in the 1990's, the City has cumulatively lost approximately \$27.8 million of property tax revenue to the State.

An additional concern is whether the State will be able to repay the funds within three years, despite the constitutional requirement to do so. There is ample evidence that the State does not always comply with constitutional requirements. For example, the State rarely, if ever, adopts its budget by the constitutionally mandated date. Also, the State is constitutionally mandated to reimburse local governments for the additional costs imposed by State mandates. Despite this, local governments have not been reimbursed for these costs in several years.

The attached resolution, prepared by the League of California Cities, will remind State officials that borrowing local government property taxes does not solve the State's budget problem and will have potentially devastating effects on local governments already dealing with their own severe fiscal problems.

SUBMITTED BY: Robert D. Peirson, Finance Director

APPROVED BY: City Administrator's Office