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FOR IMMEDIATE RELEASE

League of California Cities Condemns Proposed State Budget as Reckless Ponzi Scheme

SACRAMENTO — California's legislative leaders and Gov. Arnold Schwarzenegger have agreed on a proposal to "balance" the state budget with illegal raids of local government gas tax, public transit and redevelopment funds, according to recent court decisions and a legal analysis obtained by the League of California Cities, as well as a "loan" of local government property taxes that is unlikely to be repaid. By relying on illegal mechanisms and fund shifts, this budget resembles a Ponzi scheme that the League of California Cities condemns in the strongest possible terms.

The classic Ponzi scheme works on the "rob-Peter-to-pay-Paul" principle. Money from new investors is used to pay off earlier investors until the whole scheme collapses. Meeting in secret, the Big Five have put together a state budget that relies on unconstitutional seizures of local taxpayers' funds or "loans" from local taxpayers to finance today's state operating expenses. This recipe for disaster passes off responsibility for repayment or complying with future court orders to reimburse local governments to future governors, legislatures and taxpayers.

As they have in the past, courts are expected to enjoin the state from implementing its unconstitutional raids of local gas tax, public transit and redevelopment funds. Further, given California's negative fiscal outlook, the League believes it is illusory to maintain that the state will be in a position to repay the "borrowed" property tax funds in a few years.

League President and Rolling Hills Estates Mayor Judith Mitchell reacted strongly to the budget proposal. "Cities across the state have suffered deep revenue losses and acted responsibly to cut spending by laying off staff, shutting public facilities, and eliminating programs. While some at the state level will try to pass this proposed state budget off as a major breakthrough, city leaders know it only passes the buck and the problem to the future. As an elected official who took an oath to protect and defend the state constitution, I am embarrassed that any state officials would propose a blatantly unconstitutional budget that promises to fail within weeks of its adoption."

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“This budget proposal is a reckless Ponzi scheme because it depends on unconstitutional seizure of billions in local revenues that the voters dedicated to specific purposes and questionable borrowing provisions,” said Chris McKenzie, League executive director. “It also puts government’s most important responsibility—protecting public safety—at risk because it takes local property tax revenues that should be used to patrol the neighborhoods of the cities of California and to respond to the many fire, police and emergency medical calls that cities in California receive. We have assured state officials we will see them in court the day after a budget is signed if it contains illegal provisions.”

Established in 1898, the League of California Cities is a nonprofit statewide association that advocates for cities with the state and federal governments and provides education and training services to elected and appointed city officials.

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