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League Takes an Oppose Unless Amended Position on DOF Redevelopment Dissolution Budget Proposal

Cities Urged to Take Immediate Action

The League board of directors last week voted unanimously to oppose unless amended Gov. Jerry Brown's proposal to make changes to the redevelopment dissolution process as part of the FY 2015-16 budget. The recently released [language to the proposal](#) is anticipated to be included in a budget trailer bill. The proposal contains a number of significantly harmful provisions to local agencies that would reverse recent court decisions regarding the redevelopment dissolution process, undo previous incentives and limit transparency, accountability and opportunities for local agencies to protect their legal rights. The League board action occurred in advance of several upcoming hearings on the matter. *For more, see Page 2.*



Board of Equalization Acts to Reduce Variable Gas Tax Rate

Sen. Jim Beall Introduces Bill to Provide More Stability

The [State Board of Equalization](#) (BOE) yesterday approved a 6 cent per gallon decrease, from 18 cents to 12 cents, in the state variable tax on gasoline for FY 2015-16. This action will result in a dramatic decrease in the variable gas tax revenues received by cities. The decrease is more than the Department of Finance's projected 5.5 cent reduction, but is lower than the BOE staff recommendation of a 7.5 cent reduction. The decrease will take effect July 1. *For more, see Page 2.*



Assembly Speaker Announces Democrats Affordable Housing Plan

Assembly Speaker Toni Atkins (D-San Diego) today announced the [Assembly Democrat's plan](#) to introduce several legislative measures focused on creating more affordable housing in California. The Speaker was joined by California Treasurer John Chiang, Los Angeles Mayor Eric Garcetti, as well as Assembly Members Ed Chau (D-Alhambra) Jimmy Gomez (D-Los Angeles) and David Chiu (D-San Francisco). *For more, see Page 3.*

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The League submitted its official [oppose unless amended letter](#) on Feb. 25 to members of the Assembly Budget Subcommittee No. 4 on State Administration, which will hold a hearing on the proposal on March 3. The Senate will consider it on April 9 in the Budget and Fiscal Review Subcommittee No. 4 on State Administration and General Government. Along with the letter the League also included a [detailed analysis of the proposal's provisions](#).

The redevelopment dissolution process has been very difficult for many agencies, although significant progress has been made. To date, the Department of Finance (DOF) issued findings for completions for 329 agencies, of which 177 have been approved. The state budget continues to benefit and the Governor's Administration projects that from FY 2011-12 through FY 2015-16, the process will produce \$5.375 billion in Proposition 98 funds for schools. Ongoing, schools are expected to receive \$1 billion.

Where disputes remain, the issues are being worked through the Sacramento County Superior Court, which has jurisdiction under the dissolution statute. These are complex issues that will be resolved in due time. The courts are now interpreting the law that DOF helped draft. It is reasonable to expect the state to have to comply with and respect the same laws to which local governments are subject. The aspects of this proposal of most concern would redraft and insert new retroactive provisions into the law to avoid court rulings deemed unfavorable by the state, and stifling the ability of local agencies to protect their legal rights.

This proposal in many ways is counter to the Legislature's recent efforts to help not hurt local agencies with the dissolution process. Legislators last year advanced several bills that provided helpful clean-up to dissolution statute including two of Assembly Speaker Toni Atkin's bills, AB 471 and AB 1963, which the Governor signed. Several other bills, SB 1129 (Steinberg), AB 2493 (Bloom) and AB 15450 (Garcia), were vetoed.

Take Action

The League has prepared a sample letter that cities can use to oppose this proposal. Cities can individualize their letters with details about how the proposal would cause harm to their communities.

The sample letter is available on a webpage dedicated to redevelopment dissolution at www.cacities.org/redevelopment.

Cities negatively affected by this legislation are encouraged to also send a representative to attend the hearing on the matter scheduled for Tuesday, March 3, at 1:30 p.m. in Room 447 of the State Capitol.

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The state gas tax is made up of two portions: the base gas tax and a variable (price-base) gas tax. Currently, both taxes impose 18 cents per gallon of gasoline. Cities receive a portion of both taxes in order to fund local roadway improvements, maintenance and projects.

Under the [Gas Tax Swap of 2010](#), the state sales tax on gasoline was eliminated and replaced with the price-based excise tax. The deal also diverted tax revenues from the state's transportation budget to fund other projects and required BOE to adjust the state excise tax every year.

BOE annually adjusts the variable gas tax to try and match what fuel tax revenues in the forecast year would have been had the swap not occurred under [Proposition 42](#) (sales tax on gasoline). Later, when the actual amount of gallons sold and taxable sales are known for a year, BOE must "look back" and "true up" for any over or under collection of revenue compared to what the sales tax rate would have garnered. This true up is factored into the rate set in subsequent year(s). The result is that if taxable sales of gasoline (which are in turn a function of gas prices and gallons sold) fall more than BOE anticipated in its rate setting, then a downward true up will compound a downward trend in taxable sales in subsequent years. The reverse could also be true of course,

but the current reality with automobile transportation fuels is both a slackening of demand and a downward trend in prices. The result is the dramatic downturn in the estimated allocations in FY 2015-16 from the prior year.

The variable gas tax rate has seen significant increases and decreases since the BOE adjustment process was implemented. The resulting instability has had a significant impact on state and local agency ability to plan for future projects. In response, Sen. Jim Beall (D-San Jose) introduced [SB 321](#) that would allow BOE to make partial adjustments of the rate over a three year period — a process referred to as “smoothing.” It would also authorize BOE to adjust the rate on a quarterly basis if the board makes a determination that the amount of revenues generated by the motor vehicle fuel tax will be significantly different than the original estimates made by the board. This important bill is expected to be expedited through the process in order to take effect before the start of the new fiscal year.

Cities can expect more information on this effort shortly. In addition, [CaliforniaCityFinance.com](#) is preparing to distribute updated city by city estimates of FY 2015-16 gas tax allocations that incorporate the BOE action.

'Housing' Continued from Page 1...

The plan announced this afternoon seeks to recompense for the loss of over \$1 billion per year of redevelopment housing funds, a critical state funding source. Speaker Atkins said that her plan provides a more permanent source of funding that would allow the state to fund existing programs at dependable levels, and create a more reliable and efficient mechanism than the occasional housing bond.

The proposal would:

- Establish a permanent source of funding for affordable housing by placing a \$75 fee on real estate transaction documents, excluding home sales;
- Increase the state's [Low Income Housing Tax Credit](#) by \$300 million;
- Provide legislation to create a framework for how California will spend any funds received from the [National Housing Trust Fund](#) that are expected to flow to states in 2016; and
- Use a portion of the [Proposition 47](#) funds to reduce recidivism through investment in rapid rehousing and housing supports for formerly incarcerated Californians.

According to estimates, the proposal would generate approximately \$500 million annually statewide for affordable housing needs via the proposed \$75 recordation fee on real estate transactions with the exception of home sales —a provision identical to a failed bill the League supported last legislative session, [SB 391 \(DeSaulnier\)](#). The Speaker's plan also estimates that for every \$500 million spent on affordable housing, approximately 29,000 jobs would be created.

Detailed provisions of the bill package have yet to be released, but are expected sometime later this week. The League will monitor the progress of the proposed bill package and inform members of developments as it makes its way through the legislative process.

Ask Your Congressional Representatives to Support MuniBonds

In anticipation of another effort this year to eliminate or modify the current tax-exemption for municipal bonds (MuniBonds), the National League of Cities is encouraging Congressional members to sign onto a [bipartisan Dear Colleague](#) letter being led by Reps. Randy Hultgren (IL-14) and C.A. Dutch Ruppersberger (MD-02). The letter to House leadership urges support for the preservation of the tax exemption on municipal bond interest.

The deadline for your representative to sign on is this Thursday, Feb. 26. That's why we need you to [ask your representative](#) to sign on immediately.

With tax-exempt municipal bonds, local governments finance roads, water infrastructure, public utilities, health care facilities, and so much more. However, despite their enormous effectiveness

as a financing tool that drives development and creates jobs while saving local governments' interest costs, tax-exempt bonds are threatened. Several federal proposals have emerged over the last few years, including the President's FY 2016 budget proposal, that would modify the tax exemption or eliminate it entirely.

The Mayors and Council Members Department Survey is Due March 4

The League's Mayors and Council Members' Department is conducting a brief online survey to assess a range of issues related to city elected officials to help the department best meet the needs of its members. The results will guide the department's executive committee's efforts to improve communication, increase participation and plan department-led educational programming.

The survey is designed to take five to 10 minutes and all of the information and answers will remain confidential. The League is sending out the request to participate in the survey through several communication channels but only needs each elected city official to complete the survey once.

[The survey is available online](#). Please complete your response by Wednesday, March 4.
