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DOF's Proposal Borrows Local Property Taxes to Close State Deficit

Department of Finance (DOF) staff on Tuesday, May 5 informed local officials that they have prepared a May Budget Revision option for Gov. Arnold Schwarzenegger to consider that borrows 8 percent of local governments' property tax revenues, estimated at just over \$2 billion. The League will strongly oppose any proposal that puts the funding of state government ahead of the public safety of city residents.

In a statement the League released Tuesday, League President and Rolling Hills Estates Mayor Judy Mitchell denounced the proposal. "This proposal is irresponsible and would have disastrous and long-lasting impacts. Cities are already reducing services due to the recession and can't afford to cut public safety and other essential services to bail the state out," said Mitchell.

Chris McKenzie, League executive director, added: "For most cities police and fire protection make up 60-80 percent of their budgets." Californians know how important it is to maintain public safety. According to a Field Poll released April 30, 74 percent oppose cuts to law enforcement and police. DOF's proposal significantly increases the likelihood cities will have to cut the very public safety services the voters want protected.

The League called on the Governor to reject the DOF proposal. McKenzie said: "The Governor has said repeatedly that borrowing local property taxes and Proposition 42 transportation funds is irresponsible. It only deepens the state's structural deficit and creates an obligation to repay. In the meantime, local services will be cut severely and citizens' safety will be put at risk. This is precisely the type of budgeting that California needs to avoid. The state needs to balance its budget within its own resources."

The DOF proposal is fiscally irresponsible. It acknowledges the deep cuts its proposal would cause at the local level yet it fails to point out that diversion of local property tax funds to finance the state budget will only deepen the state's structural deficit; the state is obligated to repay the property taxes with interest in three years. In the meantime, however, the state will have decimated local public safety and other essential community services and dug itself a deeper hole from which it is less likely to recover. This is a step backward to the days of binge borrowing that brought California to the financial precipice in the first place.

DOF acknowledges that current credit conditions prevent cities from borrowing against the state's obligation to repay. What this means is that there is no effective way for local governments to soften the financial blow of the proposal and cities will face drastic pressures to cut the muscle out of their budgets and the community services they fund.

The League is prepared to fight vigorously to protect city services to the millions of Californians who live in cities. The Governor should reject this proposal for the fiscally irresponsible idea it is. Borrowing local government funds will put public safety at risk and cut community services for families and children. It will never be acceptable to sacrifice essential local services to fund the state budget.

Take Action

Contact your League regional public affairs manager and get involved with the League's efforts to fight any state borrowing of local government funds. Stay tuned to *City Advocate Weekly* for updates on the state budget and local impacts. Also, watch for League Action Alerts on the budget.

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