To: Mayor and Members of City Council

cc: John Szerlag, City Manager

Lori Grigg Bluhm, City Attorney

From: Robin Beltramini, Council member

Subject: NLC Finance, Administration and Intergovernmental Relations Steering Committee meeting, Oct. 8-10, 2009; Mountain View CA

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First, thank you for the opportunity to represent the City of Troy and our interests at this discussion of national policy and advocacy. The weekend was a bright exchange of ideas related to the economy, including the need for structural reform of the state/municipal relationship. We talked about the interrelationship of health care and municipal finance, continued the discussions of municipal bond ratings and insurance, and considered recommendations for NLC policy adjustments. A synopsis of the discussions follows.

California's Economic Crisis (Background): This panel included Michael Coleman, previous city manager with a 12 year focus on municipal finance and author of *The California Municipal Revenue Sources Handbook (2008)*, Mike Kasperzak, council member City of Mountain View, and Stephen Levy, director and senior economist at the Center for Continuing Study of the California Economy.

Coleman offered a primer on CA municipal finance. Unlike Michigan, California cities have some latitude to raise revenue—average CA city budgets include 25% utility fees (including enterprise funds); 37% from property, sales, user, and miscellaneous taxes and income; 15% general fees; 5% other specified taxes; 5% "other"; 4% federal funds; 4% state funds; 2% interest and rents; 1% license and fees; 2% assessments. As you know, Michigan communities cannot collect taxes other than property and income. Our utility fees are not General Fund revenue. Our assessments require a different sort of accounting. The other "miscellany"—federal, state, interest and rents, license and fees looked familiar. Statutory similarities included CA's Prop 13 and our Proposal A both of which limit the growth of property tax rates. Their mechanisms are slightly different but have similar results. CA has a "Prop 1A" which specifically allows "loans" from other designated funds to the Education Revolving Augmentation Fund at the state level, but all must be paid back within three years with interest. This has created a bit of a moving "shell game" as funds are raided in turn to bring the educational fund up to appropriate levels.

Levy highlighted the actions that have brought on the economic crisis in the world's eighth largest economy (State of CA). Two historic points are critical to the analysis: 1) In 2000 CA had a 2-3 year surge in revenue. Taxes were cut and spending increased. This, over time, created a $10-15 billion deficit now escalating. 2) State, federal, and local governments currently have distressed revenue streams. As an overview, the 2-3 year recovery period expected to follow this recession in CA creates the necessity of recognizing the importance of local communities to enhancing state success in the global marketplace. Secondly, the decrease in consumer spending must be filled with business investment.

Like Michigan, the State of California's inability to pay has created a hole in the safety net for cities. The loss of state funds to local communities is especially damaging when coupled with losses in other funding sources.

It is important to distinguish the economy from the budget. Economy in CA will rebound because of federal agenda centered on research, high tech and global connections. The state's problem is that the general prosperity won't equate to enough state revenue to cover spending. Cities and the state must deal with the issue of the slow growth in revenue streams.

California's Economic Crisis (Solutions): Panel members were Dan Carrigg, Legislative Director for the League of California Cities (LCC), Rich Saskal, Far West Bureau Chief for *The Bond Buyer,* Fred Silva, Senior Fiscal Policy Advisor for California Forward.

Saskal articulated the redevelopment challenges in CA. CA Legislature has taken TIF funding to balance other portions of the state budget. Suits against the State over the practice have been successful, but will be appealed for years to come. Therefore, TIF involved property sales are difficult (and much of CA property is in TIF areas). The ratings questions surrounding municipal bonds have resulted in a "hold" on municipal bond insurance. ARRA funding (Stimulus) has had a positive impact. Build America Bond program has been successful and popular because it pushed in favor of issuers. ARRA relaxed rules for commercial banks to carry municipal bonds and increased bank qualified bonds. All could be renewed, changed, or cancelled at the end of 2010.

Silva's California Forward is a 501c3 and 501c4 non-profit with a focus on governance and fiscal reform. Like Michigan, the CA interrelated fiscal issues are: the budget process, the revenue process and the state and local relationship. There is confusion in the accountability for taxation. In CA, there are major discrepancies in the various kinds of taxation, who decides to tax, and who uses the tax revenue. The problem is that state and local government finances are interdependent. The State has a persistent imbalance while the local governments lack independent control of local resources. CA Forward's goal in reform is to fund shared priorities with an eye on outcomes and managed public resources. Changes recommended: multi-year budgeting; outcome based with performance review; legislative oversight and sunset review; majority vote to pass budget (CA currently requires 2/3); "paygo" for any new program; require a budget reserve (to even out the surges in income) funded through a transfer of non-recurring revenue to savings. Local reform changes: local taxes for local purposes, including all property tax and TIF; enhance local cooperation by ability to authorize local additional revenues by jurisdiction (city, county, schools).

Carrigg gave an overview of the position adopted by the "CCS Partnership," a joint effort of the League of California Cities, California State Assn of Counties, and the California School Boards Assn. The consortium has developed a set of principles to guide changes necessary to realign the state/local relationship and bring authority and responsibility closer to communities and local governance structures. The principles are: 1) Responsive and accountable local governments; 2) State preemption of local control (should be the exception); 3) Enhanced protection from State mandates; 4) Personnel policies and pensions (local issue); 5) Focus on outcomes in State funding of locally delivered services; 6) Modernize State budgeting; 7) Update State and local revenue systems (reflect service economy and tax equity concerns); 8) Governance and responsiveness (periodic review of government structure, functions and financing); 9) Organization of the State Legislature (election changes including term limits and operational issues).

Additionally, Carrigg reviewed the LCC position that cities must have the ability to protect themselves. All communities need the ability to meet their own needs.

The Q & A portion of the morning focused on the points that could be extrapolated to most of the country: the need for a functioning state and local partnership with clearly defined responsibilities, accountability and use of best practices; changing the "we've always done it that way" comfortable mentality; the global attraction of local communities; the adverse impact of term limits.

San Francisco's Experience in Containing Health Care Costs: Gregg Sass, CFO Public Health, City of San Francisco gave a point by point presentation on what the city has done to bring down emergency room use by the indigent, increase revenue to the public health system through patient fees, assigned primary care provider for participants and the program Healthy San Francisco. The goal has been to reduce the reliance on the city's General Fund for payment of health care. This was accomplished through a coordinated case management system using electronic charting, reporting, communications services across teams dealing with high utilizers. It allows more efficient tracking of users and enables more effective outreach and system for engagement and treatment. Public practice personnel are paid by salary, not performance. That is, numbers of patients per hour are irrelevant for purposes of remuneration. Result is that public health patients are invested in the system (They pay a premium for service coverage, and pay more if they will not cooperate with a primary provider and instead choose to use urgent care or emergency facilities.) and use levels out over time.

We also learned that some CA employers, notably Google and some higher education institutions, have differential pricing in the vending machines (e.g., healthy snacks may cost $.25 in the same machine where cookies cost $4) to encourage healthy choices. We were given some specifics regarding hospital funding in CA, as well. Then, as an example of what public and private funding can do for a regional hospital, we were given a tour of the new $428 million El Camino Hospital—amazing!

Legislative Update: Lars Etzkorn, NLC staff member, brought us up to date on the two biggest issues pertaining to the FAIR committee. First, there is the issue of municipal bond insurance. With the demise of several of the major bond insurers, many communities without a AAA bond rating have had trouble selling their bonds, and keeping their rating because of "technical defaults." Some cities were cited for technical default if one of their insurers failed—although none of the community's payments were late, short, or otherwise compromised—an asterisk (*) on their record. To avoid such continuing difficulties, NLC has been discussing with Congress the possibility of a Mutual Bond Insurance Company for municipal bonds. The debate in Washington is ongoing. The second major issue is the health care reform and how some of the bills speak to covering "all Americans," "bona fide" fringe benefits, and the impact this all has on local budgets where employee health care averages 17% of a city budget. The Steering Committee chose to advocate a controlling costs priority and asked staff for clarification of some of the arguably ambiguous and polarizing language. Also, the committee felt that any polarizing language in any NLC policy would undermine credibility and bring advocacy challenges.

NLC Policy discussion: The Steering Committee will recommend to the membership that the 2010 Census be supported and has added language requiring proper training for census workers. The support of a working intergovernmental (true) partnership will be recommended for renewal. In keeping with the notion that local authority is a key component in our ability to serve our citizens, the resolutions supporting state and local government authority for tax incentives and economic development, as well as the opposition to requirements for state and local administration of federal communications taxes will be recommended for renewal. The opposition to legislation that prevents local governments from collecting business activity taxes is scheduled to become permanent NLC policy.

We recognize that there may be additional issues brought forward by the membership at the Congress of Cities meeting in November. Those issues will be handled by the policy committee and then, if necessary, the Resolutions Committee and then the general NLC membership.

Conclusions: While it appears that much of the meeting was focused on the host state, there is much to be learned from California's mistakes and the paths that state took to get to where it is today. Many states have followed California's lead in such matters. Now, we must learn from their mistakes, weigh the value of their suggested reforms and our own, and move our own state forward. Like Michigan, California has a diverse mixture of local communities and realizes that those assets are at the center of any economic recovery.

In some ways, the weekend was very disturbing because of the parallels between Michigan and California. In so many things throughout History, California has led and we have followed, particularly in matters of social change. There is much social change that is driving the economic change in today's world. Paying attention to California and its lessons could be very beneficial for us. I was proud to be able to add our interests, successes and cautionary tales to the discussion. Thank you.

REB