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State tax grab will affect local agencies; EID would take the biggest hit

By Mike Roberts | Mother Lode News | May 26, 2009 14:08
The failure of the budget propositions in last week's statewide special election left the state budget deficit at $21.3 billion and growing.

Gov. Arnold Schwarzenegger's plans to address the shortfall includes one proposal in particular that has local agencies concerned. The governor wants to borrow 8 percent of each agency's property tax revenue, almost $2 billion in total from counties, cities and local districts whose budgets are already stretched anorexically thin.

The Legislative Analyst's Office responded to the proposal, calling for leniency on cities, counties and special districts that have little control over their revenue streams and leaning more heavily on water districts, which, in theory, have more flexibility in raising rates and thereby controlling their revenues. It proposed that within each county a greater tax burden be placed on "waste and water enterprise special districts."

El Dorado Irrigation District officials are already howling.

EID battled fiscal problems late last year, downsizing and reorganizing to shave more than a million dollars from its budget, with another $5 million reduction this year, tightening the budget to the point where Board President George Wheeldon wrote in the Mountain Democrat recently that any additional loss of tax revenue would likely be passed directly to ratepayers.

What worries Wheeldon and other EID officials is the concern that the state's 8 percent tax grab could be much steeper for water agencies.

Local agencies have seen this maneuver before. In the post-Proposition 13 public funding era, the state "shifted" tax revenues three times in the early 1990s, the so-called "ERAF" shifts. A 2004 voter initiative stopped the practice.

The initiative, Proposition 1A - not to be confused with 2009's Proposition 1A - allowed the state to borrow up to 8 percent of property tax revenues in a designated "fiscal emergency" with approval by two-thirds of the state Legislature.

In 1978 Prop. 13 locked in property tax at 1 percent of 1976 value, with a maximum 2 percent annual increase to offset inflation. Property would only be revalued on a change of ownership.

A study commissioned by the Public Policy Institute of California argued that Prop. 13 set off a chain of unintended consequences. High on the list was the transfer of control of local property tax rates and distribution from local governments to the state, with the rate and base defined by statewide initiative.

Bright political minds have found ways of circumventing Prop. 13. The resulting financing mechanisms have often been more expensive than the tax they replaced, unintelligible to the general public and distasteful to elected officials who have to explain them.

Agencies that were wise enough or lucky enough to adopt replacement funding mechanisms soon after Prop. 13, and have maintained sound fiscal practices, remain financially healthy. Locally, the El Dorado Hills Fire Department enjoys a $12.9 million reserve, while neighboring fire departments have historically survived on life support from the county, and are now battling for their fiscal lives.

The agency with the most at stake is the county. Its daunting budget problems seemed insurmountable even before any consideration of another tax shift.

EDH Fire Department

The El Dorado Hills Fire Department is better off financially than any of the other affected agencies, with $12.9 million in unallocated reserve funds in its 2009 budget.

Fire Chief Brian Veerkamp credits his agency’s historic fiscal responsibility for the sizable reserve. It was one of the first in the state to implement a developer fee on new construction.

The board will decide whether to dig into the reserve to offset the tax shift, which would come in at just more than $1 million, he said.

The El Dorado Hills Fire Department has been exempt from the prior two ERAF shifts.

Board President Jim Hartley said he didn’t anticipate reducing service levels or closing fire stations, even if the state takes the million-plus. “We’re already assuming zero growth for next fiscal year,” he said. “Our policy has been to balance the budget with existing revenues. We’d like to continue that.”

Hartley said contract discussions with the firefighters union are under way, and the ERAF shift would likely become a point of discussion.

Veerkamp added that the impact of the shift on smaller districts would be much more profound. “Those guys are already looking at county aid to fire being cut,” he said. “Taking another 8 percent off the top of their tax revenue would be a real double whammy.”

EDHCSD

The El Dorado Hills Community Services District board and staff are currently working on their 2009-10 budget, which takes effect on July 1. Like the other affected agencies, offsetting the impact of the lost tax revenue on an already shaved and shrunken budget is challenging.

The projected tax revenue for next year is currently $5,576,235. The board will have to consider how to handle losing 8 percent of that - $479,000.

In the recent preliminary budget hearing, EDHCSD Finance Director Alison Hamaker presented the board budget options that included an option to finance certain capital improvements at 6 percent over 15 years. The resulting $1.3 million loan would hedge on inflation and help offset tax revenue shifted to the state.

The board was not immediately receptive to the financing options.

General Manager Wayne Lowery defended the financing option.

“Eventually the economy will turn and construction costs will go up a lot more than 6 percent,” he said. “Capital improvements are well suited to financing because it’s a one time expense.”

Hamaker was asked to bring 10-year district budget projections to a special budget workshop on June 2 that demonstrate the long-term fiscal impact of various budget scenarios.

Board President Tony Rogozinski questioned Hamaker’s tax revenue assumptions, asking for more pessimistic projections. “We need a better understanding of where we are this year, and the following year and the year after that.”

Hamaker has encouraged the board to lower the reserve contingency from 15 to 10 percent, which is conservative compared to other districts Hamaker surveyed around the state.

Lake Forest Park is the largest capital project on the 2009-10 budget horizon. Its $1.4 million price tag would be funded by park impact fees already collected from developers, so it wouldn’t deplete the district general fund. But the park will only be built if local residents approve an assessment district to fund its maintenance. Ballots have already been mailed, and are due at the June board meeting.

Rogozinski commended Lowery for encouraging district staff to look for creative ways to cut costs and reduce head count. He lamented that 60 percent of the district’s budget is committed to salary and benefits. “That’s going to eat us alive going forward,” he said.

“This is an opportunity to change the way things have been done in the past,” said Rogozinski. “We have to manage this district like a business. There are no sacred cows.”

The board will scrutinized capital projects that impact the general fund, such as the proposed LED sign on El Dorado Hills Boulevard, community pool upgrades, Francisco Drive roadway improvements for better access to Lake Forest Park and Brooks gymnasium upgrades.

“We’re not going to see any significant park impact fees over the next few years,” said Rogozinski. “It’s a matter of hunkering down and continuing to deliver smaller things.”

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