

DATE: June 24, 2005  
TO: Mayor and City Council  
FROM: Joseph W. Luchi, Economic Development Coordinator

**SUBJECT: RESOLUTION NO. 7585 - A RESOLUTION OF THE CITY OF FOLSOM IN SUPPORT OF THE GOVERNOR'S PROPOSAL TO REINSTATE PROPOSITION 42 FUNDING OF \$1.3 BILLION AND PARTIAL VEHICLE LICENSING FEES GAP LOAN PREPAYMENT OF \$593.4 MILLION IN THE STATE'S FY05-06 BUDGET**

**BACKGROUND/ANALYSIS**

Due to rising revenues, the Governor's May revision of the state's FY 05-06 budget includes reinstatement of Proposition 42 funding to counties and cities as well as partial prepayment of the Vehicle Licensing Fees (VLF) gap loan. Because of state budgetary constraints, Proposition 42 funding to local governments was partially suspended in FY02-03 and completely suspended in FY03-04. Proposition 42, which was approved in 2002, requires that state sales and use taxes on the sale of motor vehicle fuel be used for public transportation, city and county street and road repairs and improvements, and state highway improvements. The estimated deficit in needed local street repairs and improvements statewide is \$13 billion. That amount is expected to increase by \$400 million annually. Of the \$1.3 billion of Proposition 42 funding the Governor is proposing to reinstate, \$254 million would go to cities and counties for local street repairs. Folsom's allocation would be approximately \$279,280.

The Governor's May revision also proposes to repay cities and counties for about half (\$593.4 million) of the VLF that local governments did not receive in FY02-03 due to suspension of the VLF offset. Per statute, payment of the VLF gap loan is not actually required until August 15, 2006. However, by prepaying half of the obligation early and spreading the repayment over two fiscal years, the state reduces both its debt burden and relieves the financial impact to its General Fund. The City's portion of the VLF gap repayment is estimated to be \$540,657.

These budgetary proposals by the Governor are receiving criticism from members of the legislature as well as various interest groups. Following debate in the legislature regarding the Governor's budget proposals, the Budget Conference Committee recently submitted a budget bill to both houses that includes reinstatement of Proposition 42 funding of \$1.3 billion; but, rejects the Governor's proposal to repay half of the VLF gap loan to local governments. Instead, the Budget Conference Committee proposes a smaller prepayment of \$25 million that would be earmarked for those local agencies throughout the state experiencing fiscal hardship including those relating to booking fee

payments. Apparently, the State Department of Finance would be responsible for developing guidelines that would be used to define what constitutes fiscal hardship.

The League of California Cities has asked its members to contact the legislature and the Governor to express support for the Governor's proposals. Staff recommends that the City Council approve the attached resolution expressing the City's formal support for the Governor's May budget revision which would reinstate Proposition 42 funding to counties and cities and also includes partial prepayment of the VLF loan gap in the amount of \$593.4 million to local governments.

### **FINANCIAL IMPACT**

Reinstatement of the FY05-06 Proposition 42 Funding would result in an estimated \$278,000 to the City for street maintenance purposes. Prepayment of the VLF gap loan would provide the City with \$540,657 that can be allocated on a discretionary basis according to our local priorities. Under the Budget Conference Committee's counter proposal to distribute \$25 million in VLF loan gap prepayments statewide to hardship agencies, the City is unsure whether it would receive any prepayment funds.

Due to the tentative nature of these two budget proposals, the City's Finance Department has not included these revenues in the City's FY05-06 budget projections. It is uncertain at this time whether the revenue under either proposal would be distributed to cities on a quarterly or lump sum basis.

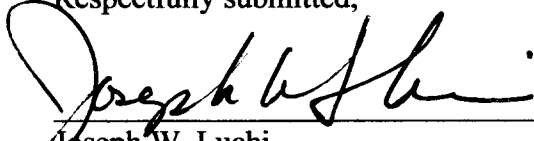
### **ATTACHMENT**

Resolution No. 7585 – A Resolution of the City of Folsom In Support Of the Governor's Proposal to Reinstatement Proposition 42 Funding of \$1.3 Billion and Partial Vehicle Licensing Fees Gap Loan Prepayment of \$593.4 Million in the State's FY05-06 Budget

### **RECOMMENDATION/CITY COUNCIL ACTION**

Staff recommends the City Council approve Resolution No. 7585 – A Resolution of the City of Folsom In Support Of the Governor's Proposal to Reinstatement Proposition 42 Funding of \$1.3 Billion and Partial Vehicle Licensing Fees Gap Loan Prepayment of \$593.4 Million in the State's FY05-06 Budget

Respectfully submitted,

  
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Joseph W. Luchi,  
Economic Development Coordinator

**RESOLUTION NO. 7585**

**A RESOLUTION OF THE CITY OF FOLSOM IN SUPPORT OF THE GOVERNOR'S PROPOSAL TO REINSTATE PROPOSITION 42 FUNDING OF \$1.3 BILLION AND PARTIAL VEHICLE LICENSING FEES GAP LOAN PREPAYMENT OF \$593.4 MILLION IN THE STATE'S FY05-06 BUDGET**

**WHEREAS**, due to rising revenues, the Governor's May revision of the budget includes reinstatement of Proposition 42 funding to counties and cities as well as partial prepayment of the Vehicle Licensing Fees (VLF) gap ; and,

**WHEREAS**, because of state budgetary constraints, Proposition 42 funding to local governments was partially suspended in FY02-03 and completely suspended in FY03-04; and,

**WHEREAS**, Proposition 42, which was approved in 2002, requires that state sales and use taxes on the sale of motor vehicle fuel be used for public transportation, city and county street and road repairs and improvements, and state highway improvements; and,

**WHEREAS**, the Governor's proposal would reinstate \$254 million to local governments (\$127 million would go to cities and \$127 million to counties) for needed street repairs and roadway improvements and Folsom's share would be about \$279,280; and,

**WHEREAS**, Folsom's share of the prepayment of the VLF loan gap is estimated to be \$540,657 which can be allocated on a discretionary basis according to local priorities; and,

**WHEREAS**, the Budget Conference Committee's proposed budget bill includes reinstatement of Proposition 42 funding; but, rejects the Governor's proposal to prepay half of the VLF gap loan to local governments and instead proposes a smaller prepayment of \$25 million that would be earmarked for those local agencies throughout the state experiencing fiscal hardship including those relating to booking fee payments; and,

**WHEREAS**, it is uncertain whether the City would receive any VLF gap loan prepayment funding under the Budget Conference Committee proposal:

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Folsom hereby states its formal support of the Governor's proposal to reinstate Proposition 42 funding of \$1.3 billion and partial VLF gap loan prepayment of \$593.4 million in the State's FY05-06 Budget.

**PASSED AND ADOPTED** this 28<sup>th</sup> day of June 2005, by the following vote:

**AYES:** Council Members:

**NOES:** Council Members:

**ABSENT:** Council Members:

**ABSTAIN:** Council Members:

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Stephen E. Miklos, Mayor

**ATTEST:**

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Christa Schmidt, City Clerk