

Local Agency ^{Re}Formation in Our Troubled Financial Times

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CaliforniaCityFinance.com The California Local Government Finance Almanac

Why Do Cities Struggle Financially?



Chronic dysfunction (widespread):

1. Local revenue risk and uncertainty.
 - state actions
 - local economic conditions
2. Tax structures out of step with changing society:
 - sales tax, ▪ hotel tax, ▪ gas tax, ▪ utility user tax
3. Fragmentation of local finance and governance among overlapping governments.
4. Disconnect between service costs and revenues in urban development. (Fiscalization of Land Use)

Acute distress:

1. Historic fiscal/economic/management problems – made acute in current economic downturn.
2. Unsustainable employee compensation levels – especially public safety employee retirement benefits.
3. Court judgments – e.g. land use

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Warning Signs of Local Agency Terminal Illness

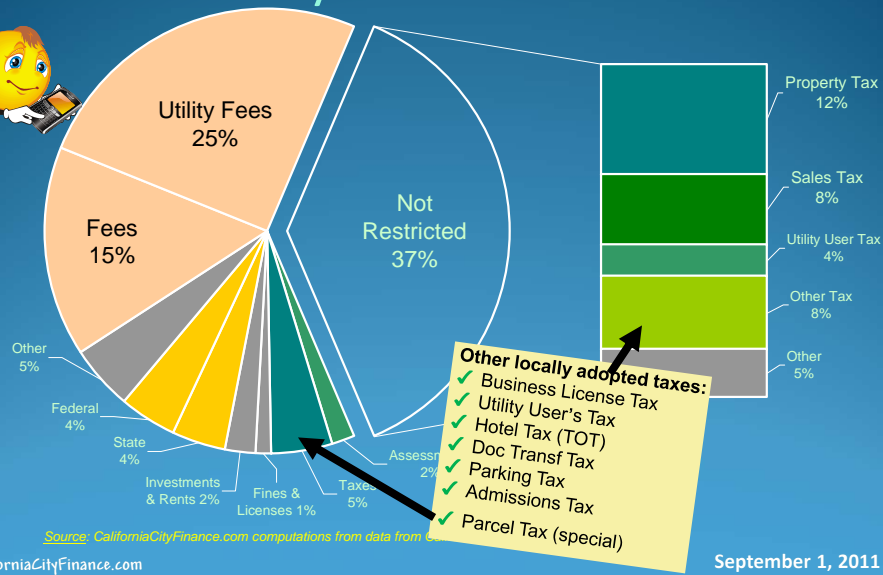


1. Severe chronic - becoming acute - unaddressed capital improvement needs, threatening health & safety:
 - roads
 - drainage
 - water
 - sewer
2. Cuts of public safety services below essential levels:
 - law enforcement
 - fire suppression
3. General Fund reserves below 1% of total annual general operating funds.
4. Adverse opinion or going concern qualification by independent auditor.
5. Withdrawal by independent auditor from audit engagement.
6. Inability to procure independent auditor.
7. Downgrade of outstanding bonds to below investment grade.
8. Default in bond payment or violation of one or more bond covenants.
9. Employees have not been paid for 7 days after scheduled payment date.
10. Has not deposited minimum pension fund obligation as required by law.

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California City Revenues

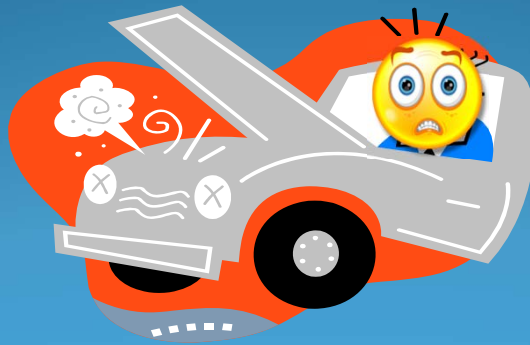


Source: CaliforniaCityFinance.com computations from data from CaliforniaCityFinance.com

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SB89 (2011)

Fiscal Poison for City Incorporations and Inhabited Annexations

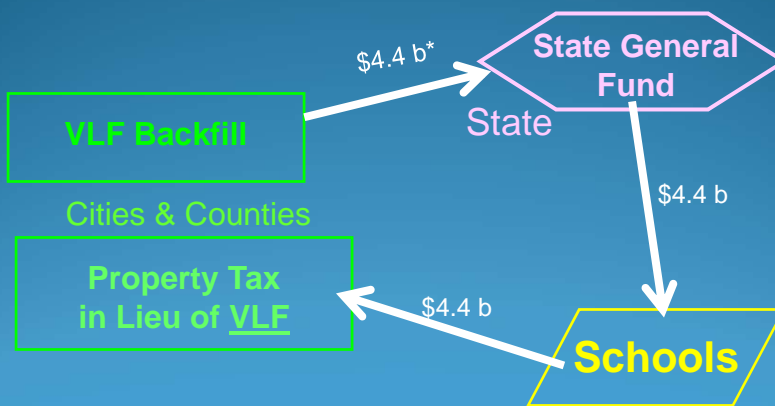


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A Little History...

The VLF-Property Tax Swap



* in FY2004-05

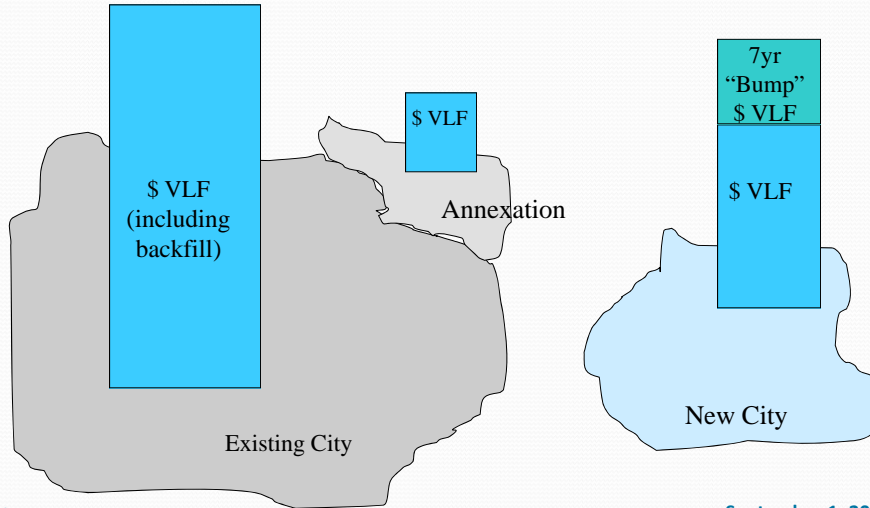
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Vehicle Lic Fee \$ Allocation



Prior to 2004



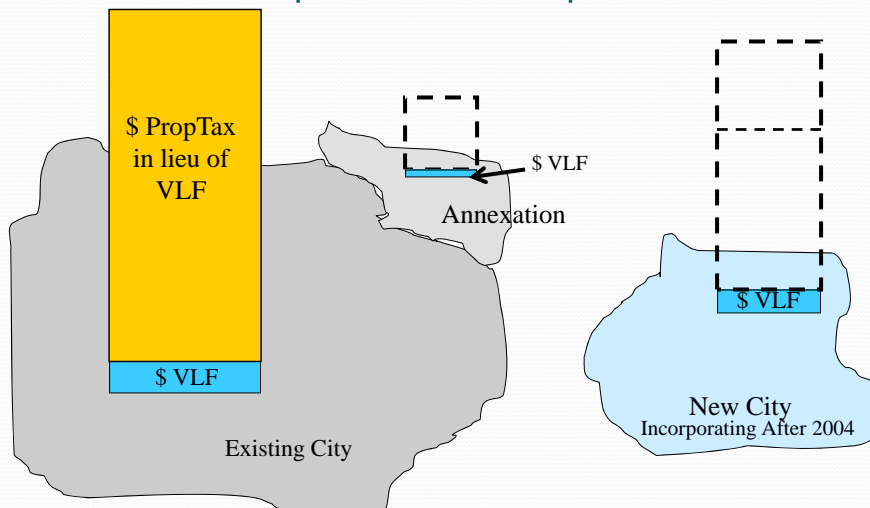
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With PropTax – VLF Swap of 2004



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