

Valley anxiously awaits Brown's state budget

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Gov. Jerry Brown on Monday unveils a budget for next year that almost certainly will propose dramatic remedies for the state's \$28 billion funding gap.

Details are tough to come by, but insiders suggest Brown may try to shift many services now overseen by the state to counties and cities.

The Sacramento Bee has reported he will try to kill redevelopment agencies and enterprise zones, a move that would generate more money for the state at the expense of tax breaks aimed at spurring business growth and jobs.

Local officials view these possibilities with a mixture of concern and hope. Hardened by harsh experience, they fear the term "local control" coming from state lawmakers is merely code for unfunded mandates from Sacramento. They also say killing redevelopment agencies and enterprise zones would harm local economies.

Yet some of the same officials say the budget crisis is an overdue opportunity to retool state government for the new economic realities of the 21st century. Local government had more control before voters in 1978 approved Proposition 13, the property tax initiative.

"From a big-picture perspective, I think it's a good idea," said Assembly Member Henry T. Perea, D-Fresno. "But the devil's in the details. We need to make sure local governments are not given the mandates without the funding."

Clovis City Council Member Nathan Magsig agreed.

"The closer you get power to the electorate, the better you are," he said. "But if you shift the responsibility and the revenue stream is not attached to that, that is going to cause major problems."

Fresno Mayor Ashley Swearingin said a debate about local choice would provide a chance to re-evaluate all state mandates. There are "vital services that need to be continued," she said. "But not all of them are."

Tax hikes eyed

Perea, a former two-term Fresno City Council member who is starting his first term in the state Assembly, said rumors are flying in Sacramento, but nobody knows details.

Almost everyone expects Brown will ask voters in June to extend temporary tax increases approved as part of a 2009 budget deal between lawmakers and then-Gov. Arnold Schwarzenegger.

The deal raised the state income tax rate, the vehicle license fee and the state sales tax through June 30. Of those, there is speculation that Brown will propose sending the vehicle license fee and sales tax money to local governments.

Perea heard that Brown may put two budget summaries on the ballot for voters — one that includes revenues from the tax extensions, and one that doesn't. The budget will take effect July 1.

Fresno County Administrative Officer John Navarrette said there is a feeling among officials in Sacramento that responsibility for funding public-safety and social-service programs could be returned to local governments. That would be accompanied by block grant funding that would let local governments prioritize and determine which services to provide.

"I don't kid myself," Navarrette said. "I recognize there has to be cuts."

Still, he said, programs that are handed back to the county should have no strings attached. That would allow the county to better handle any funding reductions.

If this happened, Navarrette said, local governments would then have to look at what services are provided, which could eliminate duplication or lead to shared services among local governments.

Perea said the reforms also could accelerate local government consolidation. He acknowledged that rattles some elected officials who are loath to share or relinquish power, but said others may welcome the opportunity.

Local governments also are worried about the temporary vehicle license fee revenue. If they are not extended, Navarrette said, it would devastate broad swaths of county government.

The Probation Department, for example, could lose 60 positions, he said.

Growth at risk

Local economic development officials are dismayed by reports that Brown wants to kill redevelopment agencies and eliminate enterprise zones.

Their demise "would have a gigantic negative impact," said Craig Scharton, director of Fresno's Downtown and Community Revitalization Department. "It would be a short-term gain for the state and a long-term loss in terms of economic development."

Fresno Redevelopment Agency Executive Director Marlene Murphey said the agency — with its hand in the construction of everything from the \$46 million baseball stadium to about 350 units of new housing — has helped generate \$1 billion of added value to downtown in recent years.

If Brown kills redevelopment agencies, Murphey said, he is "taking away the seed corn that produces the taxes that help pay for the needs of the state."

Fresno City Council Member and Redevelopment Agency Board Chairman Larry Westerlund said California, with all its regulations, already has a reputation as anti-business.

He said it makes no sense to kill redevelopment agencies and enterprise zones, among the few carrots to persuade businesses to stay or expand here. “We shoot ourselves in the right foot” with all the regulations, Westerlund said. “Then we reload and shoot ourselves in the left foot?”

Some officials wonder whether the reported threats are political posturing by Brown in an effort to make tax increases or extensions more palatable to voters.

John Shirey, executive director of the California Redevelopment Association, said redevelopment agencies for years have proved their ability to improve blighted neighborhoods. Shirey said Brown himself was a strong advocate of redevelopment agencies when he was mayor of Oakland.

If reports are true and Brown is targeting redevelopment agencies and enterprise zones, Shirey said, “he may be conveying the seriousness of the [budget] situation to the public. And it is serious.” But killing redevelopment agencies is the wrong solution, he added.

Local officials said redevelopment agencies and enterprise zones don’t get much public notice, but they have a big effect.

Redevelopment agencies use property taxes — called “tax increment” — generated in designated areas to spur public and private development in blighted neighborhoods. The help can range from acquiring land for a project to subsidizing construction of a developer’s apartment complex.

Enterprise zones use tax breaks to encourage job creation in economically challenged areas. For example, businesses get tax breaks for hiring hard-to-employ people, such as those with criminal pasts.

It’s unclear how much money the state would get from the elimination of redevelopment agencies and enterprise zones. Murphey said the Fresno agency receives \$22 million to \$25 million annually in tax increment payments.

Kelly Vaughn Trevino, who oversees Fresno’s enterprise zone, estimated that about 500 businesses receive tax credits for employing about 6,500 qualified workers. She estimates they would receive \$200 million in tax credits over the next five years.

Bad for business

By eliminating redevelopment agencies and enterprise zones, the state apparently would get all tax increment payments and the additional taxes paid by businesses losing their tax breaks. Some critics of redevelopment agencies and enterprise zones suggest a portion of the money would come back to local governments.

But Murphey said she is skeptical that much — if any — of redevelopment agency money would return to Fresno, once it gets into the hands of state officials.

And Trevino said killing enterprise tax breaks could eliminate tax-producing jobs by forcing businesses to move to less costly states or to close outright.

John Shegerian, chairman and chief executive of Electronic Recyclers International, said his company employs about 210 people in its Fresno facility. The facility is in the enterprise zone, and some of his workers qualify for the tax breaks.

He said the enterprise zone tax breaks are vital to the firm's continued success.

"California is still trying to get back on its feet economically, let alone begin running," Shegerian said. Killing the enterprise zone "would impact that tremendously. This is a benefit that I hope the governor would not cut."

Sacramento already has used redevelopment funds to plug budget holes. The state last year tapped redevelopment agencies for about \$1.7 billion. This cost Fresno \$6.7 million and Clovis \$1.7 million.

It's also unclear whether Brown has legal authority to eliminate redevelopment agencies and enterprise zones.

Shirey of the California Redevelopment Association said many agencies have bonded debt and long-term deals with developers. If the agencies were to default, he said, "that would cause huge, catastrophic ramifications in the financial markets."

He also said Proposition 22, which voters approved last year, may prevent transfer of agency funds to the state.

Even with legislative action, Shirey said, he expects lawsuits would forestall any revenue shifts for years.

By John Ellis and George Hostetter / The Fresno Bee

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