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## The Governor Should Negotiate with the Cities

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There are two challenges in fashioning a successful governmental budget. Policy outcomes should be measurable, positive, and in response to significant state issues, and they should be supportable by the necessary majority of citizens and legislators. In other words, they should work and make people happy.

After the May 19th election, the field left to the governor as he approaches these twin challenges is small. He cannot tax and he cannot substantially weaken the safety net for the poor (though he may threaten to do so). Over these positions the two parties will not negotiate seriously.

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Therefore, he is left to choose among cuts to programs that benefit the middle class (higher education and parks, for example). However, it is precisely such programs that may improve the economic climate and get California out of recession in the longer run.

What to do? The temptation is to audit existing programs, discarding those that do not work. However, such audits take time and either through lack of data or because of evidence of success, most current programs have arguments and politically active beneficiaries in their favor. A second temptation is to cut across the board, but this denies the clear priority of some programs.

An alternative line of attack would be to target programs and funds where an exchange is possible, namely where cuts could be traded for greater freedom in the use of remaining funds. Such opportunities are most obvious in regard to

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K-14 education and local government programs. It is past time to provide cities, counties, and school districts greater freedom both to raise money and to spend as they see fit. One strategy would be for the governor to review education spending, city funding, and county programs to see where regulation and oversight could be lessened or terminated as reductions are assessed. A second strategy would be to allow local governments new funding options, i.e., taxing or fee opportunities, while state funding is reduced.

However, in the time that the governor has, disentangling school and county initiatives from those of the state would be difficult. It would be rash to attempt to end categorical programs where all schools can be held to certain standards without careful analysis. In addition, the courts have developed equal educational opportunity guidelines that complicate attempts to return authority to local schools. County government, on the other hand, has increasingly become the implementation arm of the state and it would take time to consider how counties could use greater fiscal independence wisely.

By a process of elimination, then, the cities are the most likely partners with which to negotiate a trade between funds and authority. Such negotiations have borne fruit in the past. During an earlier fiscal crisis in 2004, the governor and the cities agreed and the public ratified Proposition 1A. It provided that, in exchange for current cash, the state would limit the amount of property tax funds that could

be taken centrally in the future, and assure that such funds would be returned in three years with interest.

However, a potential recall of property tax funds is not the only threat to autonomy that cities face. Cities have become entrepreneurial since Proposition 13, finding a host of ways to augment their lost income. But these new revenue sources have often been restricted in their use and their income not easily transferred from account to account. Cities, now facing budgetary crises, are finding that their general funds are too small to respond to pressing challenges.

For example, cities have been given the opportunity to create and expand redevelopment districts and to benefit from the tax increment they produce. However, these new funds are restricted to expenditures within the district. Why not consider making the cities' return less lucrative, but at the same time adding new provisions allowing the remaining funds to be spent more flexibly. In addition, cities could be authorized to institute special taxes or fees in such districts to recover lost revenue at their discretion.

An additional step would be to consider trade-offs that could return California to the home rule doctrines of an earlier time. Cities between 1911 and 1977 were assured of their power to tax property without interference from other levels of government. There was a close tie between their ability to spend and the citizens' willingness to pay. That tie was broken, allowing cities to spend funds not authorized

by their citizens and denying them the right to petition their citizens to fund projects many support. The goal of responsible government would be served by policies that limit the dole from Sacramento and return to cities both the power to tax items not otherwise eligible for taxation and the responsibility to justify such taxes to their citizens.

Since it continues to be unthinkable to revisit Proposition 13, other sources of funding than property tax might be preserved for the discretion of cities. Taxes on public utilities (water, power, sewer, telephone, cable servers, etc.), on recreation (hotels, restaurants, entertainment, alcohol, tobacco, and any legalized drug services) and/or on the use of streets within city limits (tolls, parking, traffic violations, vehicle license, etc.) are possible candidates. In many other states, for example, tobacco products are currently taxed locally.

The unique attribute of cities is their control over urban land and such taxes as those listed above build on their essential land-use mission. These taxes have the additional benefit of helping to regulate scarce public goods like natural resources, communication technology, entertainment venues, and transport routes. The profit for the governor in considering turning over such tax resources for the exclusive use of cities is that he could reclaim funds currently dedicated in the state budget for urban jurisdictions without spirited opposition.

An alternative approach could be to remove from cities future burdens in exchange for current assistance, for example, the responsibility to fund retirement obligations. Some cities face bankruptcy because of such obligations; others have had to incur considerable debt to respond to their retirees.

These and other trade-offs between authority and funding would be valuable first steps toward re-energizing cities. Few cities have sought charter status since 1977 as the loss of the freedom to raise and spend their own money has debased the value of this symbol of municipal autonomy. Charter cities are no longer more able than general law cities to pay for the policies they may have the power to enact. Indeed, it is worth considering limiting special access to tax bases to charter cities in order to make this status meaningful once more. The roots of California cities are in the Spanish Alcalde system, which recognized cities as a primary unit of administration that was able to respond quickly to local needs responsibly because the power to tax and to spend were closely aligned. It is time to reconsider the wisdom of our forbears.

In sum, even in times of fiscal crisis, horse-trading may provide the best way to find resources while promoting good public policy. Since cities have traditionally treasured their freedom of action as much or more than the growth of their treasuries, the governor might well seek their help

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in his search for financial support. The result could be a paying down of the debt and a return to home rule.