CONTRA COSTA COUNTY LIBRARY COMMISSION
AGENDA ATTACHMENT 5

MEETING DATE: Thursday, May 23, 2013

AGENDA ITEM #: 11 A

ITEM: STATE LIBRARY FUNDING ISSUES

RECOMMENDED ACTION:

The Commission will address the current State Library funding.
May 15, 2013
TO: CLA MEMBERS/ SYSTEMS/ NETWORK CONTACTS
FROM: Mike Dillon, CLA Lobbyist & Christina DiCaro, CLA Lobbyist
RE: News From the Capitol

SCA 7-WOLK PASSES FIRST COMMITTEE
Thank you to library community for support letters

Shortly after noon today, SCA 7 by Senator Lois Wolk passed the Senate Governance and Finance Committee on a straight partisan vote (all Democrat members voting “aye” and the two Republican members voting “no.”) SCA 7 would authorize the lowering of the local vote threshold from two-thirds to 55% for cities, counties, or library districts to issue construction bonds or levy special taxes for library operations. If passed by the legislature and signed by the Governor, as a constitutional amendment, it would need to be passed by the voters on the November 2014 statewide ballot.

Today's committee agenda for Senate Governance and Finance contained 6 constitutional amendments, (including Senator Wolk's), which each seek to lower the local vote threshold for various purposes including transportation projects, special taxes, education, and others. To give all of the measures a fair and thorough hearing, Senator Wolk, who also Chairs the Committee, scheduled all of the related constitutional amendments for a “special order” commencing at 10:30 a.m. In her overview remarks Senator Wolk stated that the discussion about many of the measures would, undoubtedly, center around Proposition 13, but she said that it would be unrealistic to “suggest that the 35 year old law is perfect.” She said that Proposition 13 ultimately “shifted the financing of key public resources to more unstable options...These measures will increase local flexibility and advance the Governor's concept of subsidiarity, which brings services closest to the people.” Finally, she closed by asking if an “initiative approved by parents and grandparents should bind voters today. They should have their say.”

After all of the authors had presented their measures (which each similarly passed on a straight partisan vote), Senator Wolk took up her SCA 7. During her presentation, Senator Wolk stressed the importance of libraries to our communities, saying that they “aren't our traditional libraries anymore. They are offering a host of important services from literacy training to resume building classes, to students who use the after-school online tutoring programs.” Mike Dillon testified on behalf of CLA, noting that the year 2000 marked the last time there was a statewide bond approved by the voters and it quickly was exhausted due to the overwhelming infrastructure need of communities. He explained that it was important to give local governments and local voters the ability to make choices for their communities, such as bond construction, or using to alleviate some of the drastic cuts that were made to library programs in the state budget, by levying a local tax library operations.

Patty Wong, the Yolo County Library Director, member of CLA’s Legislative Committee, and former recipient of Senator Wolk’s "Woman of the Year" award, indicated that the measure had the full support of the Yolo County Supervisors and was much needed for her county. In terms of construction needs, she noted a $5-8 million need over the next 10-12 years and added that the patron satisfaction ratings are "beyond high and we have more people than we can possibly serve. We are the most reliable source for broadband. We are the people's university and their small business center, and their home away from home."

Also testifying in support of the measure were two representatives of the Friends of the Sacramento Public Library, the California State Association of Counties, the lobbyist for the cities of Pasadena and Burbank, Alan Smith Contra Costa Library Commissioner - also representing the California Public Library Advocates (formerly CALTAC), the League of Cities, the California Labor Federation, and lobbyists for Santa Clara County and the City of San Jose. CLA members are to be commended for their strong outpouring of letters of support for this measure, which was represented in the lengthy list in the committee analysis. (Please see the link to the analysis for SCA 7 to view the full, impressive grouping.) The SCA measures were not without opposition, with a group of business interests from the Chamber of Commerce to the Howard Jarvis Taxpayers Association, to the realtor and apartment association groups and Farm Bureau, asking the members of the committee to oppose each SCA, based on the “state's current high tax burden” and various other arguments.

SCA 7 subsequently passed out of committee on a partisan vote, as mentioned. All of the bills are now double-referred to the Senate Elections and Constitutional Amendments Committee, but because they are constitutional amendments, they do not subscribe to the same timeline as a standard bill. They can be taken up this year or early next year. Once SCA 7 is officially assigned to the next policy committee, we will send you the contact information for those Senators and we will be asking you to write letters of support again.

orio Garza, Executive Director
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May 14, 2013

TO: CLA MEMBERS/ SYSTEMS/ NETWORK CONTACTS

FROM: Mike Dillon, CLA Lobbyist, Christina DiCaro, CLA Lobbyist

RE: News from the Capitol

GOVERNOR RELEASES "PRUDENT MAY REVISION" OF STATE BUDGET

This morning, Governor Brown appeared before the press to formally release his May Revision of the 2013-14 State Budget. The May Revision or "May Revise" as it is called, is the annual process by which the Governor assesses several months worth of tax receipts and evaluates the overall economic condition of the state and then adjusts his January version of the State Budget accordingly. The Governor stated, "For the first time in more than a decade, we have a balanced budget and it is solid." While the state is noting a $4.5 billion cash increase since January, the Governor is only identifying $2.8 billion of that amount to be attributed to 2012-13 and is showing a deficit of $1.3 billion in 2013-14. The Governor cautioned, "We have to be planning for the next 14 months. For example, 4% growth is now 2% growth. We didn't anticipate the (federal) sequester and the payroll tax restoration. This is a prudent budget, which responds to education and health challenges. We are sailing into rather uncertain times." The Governor and the Department of Finance contend that the cash increase may be "short-lived" and one-time in nature because of tax pre-payments before the close of the calendar year in anticipation of changing tax rates. As such, the Governor provides for a $1.1 billion General Fund reserve in his May Revise.

When a reporter asked if the Governor anticipated push back from the Legislature, who has been assuming that the Budget would be working with a $4.5 billion surplus, he responded, "Everyone wants to have more spending. This place is a spending machine. They can push, but I can push back. I'm the backstop. I need to keep things balanced."

The Governor's Budget assumes, as is required by law, $2.9 billion in new funding for Proposition 98 "in the current year for K-12 schools and community colleges. The May Revision proposes that these one-time funds be used to reduce the deferral of payments to schools and community colleges, and to support the implementation of new academic standards." The Governor's Budget also significantly highlights his Local Control Funding Formula, which is a major overhaul of the current K-12 funding system. Medi-Cal is also augmented as the state readies itself for the implementation of the Affordable Care Act. CalWORKs and county probation departments are also beneficiaries of new funding.

Very few programs received attention in the Governor's proposal; for example, there is no new money in the Budget for employee salaries (which are being negotiated currently), and there is no new money for the court system, which has been dramatically reduced over the last few years.

Additionally, regarding an issue that we have been reporting on for several months, there is no new money proposed for the CLA/CENIC "Budget ask" proposal which seeks to connect every public library outlet to a massive high-speed broadband infrastructure backbone. While we had hoped the Governor might fund even a modest amount for our proposal, we recognized it was a "long shot," given his fiscal prudence. We had also been seeking new money for the grant funding needed to connect the unserved and underserved libraries to the backbone, and new funding for the state literacy program. However, we continue to have very active discussions with the Senate and Assembly Budget Subcommittees regarding including an augmentation for these programs in their version of the State Budget.

The subcommittees will now take a few days to review the Governor's Budget and then they will address our issue next week in a scheduled public hearing. We will keep CLA members apprised of the developments and we will include instructions regarding next steps in our next "News From the Capitol."
LOCAL GOVERNMENT FINANCING: PUBLIC LIBRARIES: VOTER APPROVAL

Lowers the vote threshold for cities, counties, or library districts to issue bonds or to levy special taxes from 2/3 to 55%.

Background and Existing Law

I. Taxes. The California Constitution states that taxes levied by local governments are either general taxes, subject to majority approval of its voters, or special taxes, subject to 2/3 vote (Article XIII C). Proposition 13 (1978) required a 2/3 vote of each house of the Legislature for state tax increases, and 2/3 vote of local voters for local special taxes. Proposition 62 (1986) prohibited local agencies from imposing general taxes without majority approval of local voters, and a 2/3 vote for special taxes. Proposition 218 (1996) extended those vote thresholds to charter cities, and limited local agencies' powers to levy new assessments, fees, and taxes. Local agencies generally propose to increase taxes by adopting an ordinance or a resolution at a public hearing. Local agencies generally propose to increase taxes by adopting an ordinance or a resolution at a public hearing.

Cities and counties that operate libraries can fund them out of general tax revenue; library districts are often funded from a share of the property tax. Current law traditionally allows cities, counties, or library districts to levy parcel taxes to fund libraries. The agency may implement these taxes, for as long as it wants, spend the proceeds for any purpose, and apply any tax rate it chooses. Voters must approve the taxes by a 2/3 supermajority. Additionally, cities and counties may form Community Facilities Districts, also known as Mello-Roos Districts, to levy special taxes (parcel taxes). A Mello-Roos Community Facilities District (CFD) issues bonds against these special taxes to finance the public works projects. Like all special taxes, Mello-Roos Act special taxes require 2/3 voter approval. If there are fewer than 12 registered voters, the affected landowners vote.

City and counties can also impose transactions and use taxes to fund libraries, provided that the combined rate in the county does not exceed 2 percent, upon 2/3 vote of the local agency's governing board and 2/3 voter approval.

II. Bonds. The California Constitution requires counties, cities, and school districts to get voter approval for long-term debt.

Counties, cities, school districts, community college districts, and some special districts can issue general obligation (GO) bonds, secured by ad valorem property tax revenues, with 2/3 voter approval, and implemented in statute in the Government Code. The Constitution further bars school districts from imposing general taxes, but allows school districts, community college districts, and county offices of education to issue bonded indebtedness for school facilities with 55% percent approval (Proposition 39, 2000).

Proposed Law

Proposition 7 amends the Constitution to authorize cities, counties, special districts to impose a special tax by a 55% vote of the voters in the district or county under specified circumstances, including:

The district governing board approves the proposition by majority vote,
The ballot proposition contains a specific list of programs and purposes to be funded, and a requirement that funds be spent solely for those programs and purposes.

The ballot proposition includes a requirement for annual independent audit of the amount of tax proceeds collected and expended and the specified purposes and programs funded, and

The ballot proposition requires the governing board to create a citizens' oversight committee to review all expenditures of proceeds and financial audits, and report its findings to the governing board and the public.

SCA 7 also amends the Constitution to allow cities, counties, and special districts to issue bonded indebtedness to construct, reconstruct, rehabilitate, or replace public libraries, including furnishings, equipment, or leasing real property. The measure requires the following accountability measures be in place as part of the ballot question:
A requirement that bond proceeds be used solely to construct, reconstruct, rehabilitate, or replace public libraries, including furnishings, equipment, or leasing real property, and for any other purpose, including personnel and operating expenses, A list of the specific public library facility projects to be funded,
Certification that the local agency has evaluated the degree to which existing facilities are adequate to meet the needs of the residents of the area, and the degree to which proposed facilities will meet the needs, A requirement for an annual independent performance audit ensuring that bond proceeds have been used solely for the listed projects, and
A requirement for an annual independent financial audit of the bond proceeds until all have been expended.

SCA 7 also makes clarifying and conforming changes to the Constitution.

State Revenue Impact

No estimate.

Comments

1. Purpose of the bill. According to the author, "SCA 7 would give local communities the opportunity to decide if they would like to levy a tax for the support of library services. Libraries provide vital services to the state's educational system and communities across the state. More than 21 million people use California's public libraries each year. As public schools are increasingly cutting library services and even closing all together, citizens rely on public libraries more than ever before. Children, students, families, and seniors all depend on public libraries for a variety of services from literacy programs to resources for students. In addition public libraries play a critical role in bridging the digital divide and connecting people with technology who would otherwise not have access to it. While demand for library services is growing, many libraries are struggling to meet the needs of their users, especially in the current economic climate.

In 2007, the California State Library conducted a thorough "Needs Assessment," and determined that there were 662 library projects pending in the state, totaling $8 billion. Many libraries' facilities are old and their technology is inadequate. According to a special report issued by the California State Library, entitled, "Thirty Years of California Library Ballot Measures - 1980-2009," they note, "Those library-related measures in California which only required a simple majority were approved 77% of the time, which is very close to the overall national average of 80%. However, library measures which required a supermajority were approved only 45% of the time. Lowering the voter threshold to 55 percent to raise revenue for libraries would give local governments the ability to keep libraries open and support their communities with the resources they need."

2. Who pays? An old piece of tax policy wisdom attributed to Louisiana Governor Russell Long states that, "Don't tax you, don't tax me, tax the man behind the tree." SCA 5 lowers the threshold on parcel taxes, which are taxes on landowners. Therefore, resident non-landowners, like renters, are able to vote in the election, but do not pay
any of the taxes except as passed through in rents. In the reverse, non-resident landowners are not able to vote in the election, but must pay the tax if the voters approve the measure. In addition, districts may exempt taxpayers 65 years or older, thereby creating another class of voters who do not bear the incidence of the tax. The committee may wish to consider whether lowering the vote threshold for new parcel taxes is equitable when many voters do not bear the cost, and those who may bear the cost cannot vote.

3. More or less. Majority rule is a two-edged sword: democratically elected governments are supposed to enact policies that the voters want, but both federal and state systems of government restrict the majority's ability to oppress a minority interests. For the great majority of public issues, fifty-percent plus one of a legislative body or an electorate rule. But for some issues, the United States and California Constitutions provide that a majority is not enough and a higher threshold is necessary, such as amending the U.S. Constitution, removing a president from office, ratifying a treaty, or overriding a veto. States largely import the 2/3 vote from the United States Constitution into their own for those same purposes, but also require 2/3 vote on taxes or other measures. In a series of voter initiatives, Californians have elevated local special tax increases and legislatively enacted state tax increases to this level, while almost every other change to the law can be enacted by majority vote; local agencies can enact general taxes, and voters can approve tax initiatives increasing state taxes by majority vote, as they did with Proposition 30 (2012). As such, local agencies need a majority vote to assess taxes and spend the proceeds on whatever purposes they want to, but 2/3 if they restrict the use of the tax proceeds. Supermajorities of the Legislature are necessary to increase taxes, but only majorities of voters can.

SCA 7 adds another layer onto the complex system above. If enacted, local agencies can enact special taxes for library purposes at 5% vote, paralleling Proposition 39's similar threshold for school bonds. However, the measure doesn't affect thresholds for taxes dedicated to other purposes. The first policy question for the Committee is: what would be the voting threshold for local special taxes? The Legislative Analyst's Office says there's no right answer, as requirements vary across states, but adds that the process should be easy enough for voters to understand and reflect overarching objectives for voter participation in tax decisions. The second is: should the thresholds be different based on the use of the tax proceeds, like libraries? The Committee may wish to consider the reasons for affording library taxes special treatment when contemplating the overall system of voter thresholds necessary to increase taxes.

5. Signed, sealed, delivered. California allows cities, counties, and library districts to levy parcel taxes, which are different in many ways from property taxes and general obligation bonds. First, parcel taxes are not ad valorem, or assessed based on the value of a property; instead they are a flat rate assessed per parcel or per square foot, regardless of its size. Essentially, parcel taxes are a flat tax on property ownership. Secondly, the proceeds of general obligation bonds must be spent on the acquisition and improvement of property, or on school construction. Parcel taxes give the imposing authority considerably more flexibility to spend as they see fit. Proceeds are not limited to certain uses; revenues may be used for ongoing expenses, programs, or buildings at the local agency's discretion. Parcel taxes are flexible ways of raising revenues at the local level, but are subject to certain requirements. Parcel tax elections must be held on "established election dates", which means in March, April, or November of an even-numbered year, or March, June, or November in an odd-numbered year. Parcel taxes do not have a cap; Parcel tax proposals voted on in the last ten years varied from $26 per parcel to $765 per parcel, with terms as short as two years, and others enacted permanently.

6. The ties that bind. SCA 7 not only lowers the vote threshold for parcel taxes for library purposes, but also extends to libraries the lower voter threshold of 55% for debt issuance the voters granted to school districts and community college districts in Proposition 39 (2000). Taxes and bonds are fundamentally different: a district's voters can repeal a tax by referendum, but once an agency issues a bond, it's irreversibly committed to pay
principal and interest according to schedule until the bond is redeemed. While Proposition 39 led to more school facilities in a state with a large student population, it also led to savvy financial advisers coaxing districts into borrowing too much or using unwise debt structures: some districts issued bonds with 30 years of deferred principle and interest payments, but triggered twelve to one debt to principal ratios when repayments started becoming due in year 30. Additionally, school districts are filing lawsuits against potentially unsavory financial advisors: the Willits Unified School District is suing Caldwell Flores Winters, Inc., stating it had been "duped" into overpaying the firm hundreds of thousands of dollars. While school districts and libraries are very different, is there cause for concern that by lowering the vote threshold, SCA 7 could give rise to similar problems in libraries? The Assembly recently approved AB 182 (Buchanan), which substantially reforms school bond issuance in response to the above problems, and this Committee will hear the bill in June. The Committee may wish to consider applying AB 182's reforms to any bonds issued at the lower voter threshold of 55%.

7. **Join the party**. The Committee will hear five other measures that change the vote threshold for special taxes:

SCA 3 (Leno) - allows school districts, community college districts, and county office of education to levy parcel taxes at 55% vote.
SCA 4 (Liu) - allows local agencies to levy, extend, or increase special taxes at 55% vote for local transportation projects.
SCA 8 (Corbett) - allows local agencies to levy, extend, or increase special taxes at 55% vote for local transportation projects.
SCA 9 (Corbett) - allows local agencies to levy, extend, or increase special taxes at 55% vote for community and economic development projects.
SCA 11 (Hancock) - allows local agencies to levy, extend, or increase special taxes at 55% vote for any purpose.

**Support and Opposition** (05/13/13)

**Support**: California Library Association; Jeanne J. Boss, Friends of the Santa Cruz Public Libraries Board Member; League of California Cities; Milpitas Library Commission; Santa Cruz Public Libraries; Sheridan Beuving, Chairman, Stanislaus County Library Advisory Board; Ann Rivo, Ph.D, Board Member San Rafael Public Library Foundation; Anne R. Bernardo, President, California Library Services Board, Director Tulare County Public Library; Arlene Sukolsky, Trustee of the San Rafael Library Board; Berkeley City Council; Bill Jeffrey Miller, Friends of the Hemet Public Library; Bill Kampe, Mayor, Pacific Grove; Board of Library Trustees of the Altadena Library District; Burbank Board of Library Trustees; California Library Association; Libraries Board Member; Kern County Library; League of California; California Park and Recreation Society; Castro Valley Friends of the Library; City of Pleasanton Library Commission; City of Rancho Cordova; City of Riverside; City of San Diego Board of Library Commissioners; Constance Tse, Retired Teacher; **Contra Costa Board of Supervisors**; Danielle Maddox, President, Friends of the Sunnyvale Library; David Glass, Mayor of Petaluma; David Rabbitt, Sonoma County Board of Supervisors, Chair and Second District Supervisor; Deborah Doyle, Chair, Friends of the San Francisco Public Library; Fran Larson, Treasurer of Pacifica Friends of the Library; Frank Scott, Mayor, City of Torrance; Friends of the Fortuna Library; Friends of the Hemet Public Library; Friends of the Riverside Public Library; Friends of the Sacramento Public Library; Friends of the San Benito County Free Library; Friends of the San Diego Public Library; Gary Knight, President, Escondido Public Library Board of Trustees; Gary T. Ragghianti, San Rafael Library Foundation Board member; Gretchen U. Kingsbury, Retired Junior High School Teacher; Jean Quan, Mayor, City of Oakland; Jeanne J. Boss, Friends of the Santa Cruz Public Library; Jeffrey S. Schoppert, President, San Rafael Public Library Foundation; Jennifer Newell, Santa Maria Public Library, Retired Children's Librarian & Board Member; Joan Ahlstrand Member of Turlock Friends of the Turlock Library; JoAnn Levy, Award winning Author, Board member, California State Library Foundation; Joanne F. del Rosario, Mayor, Town of Colma; Karen Williams, Executive Director, Stanislaus Literacy Center; Marc Sena Carzel, California based bookseller, Literacy Teacher, Former Civil Rights Investigator with the US. Department of Education; Mark Landman, Mayor, City of Cotati; Mary Kathleen Hanselmann, Defense Language Institute, Chief Librarian; Michael J. Beck, City Manager, Pasadena; Mindy Kittay,
Mendocino County Librarian; Mrs. Caroline Barba, Co-president Pacifica Friends of the Library; Mrs. Joan Putz, co-president Pacifica Friends of the Library; Ojai Valley Library Friends and Foundation; Palos Verdes Library District; Patty Wong, Library Director Yolo County; Paula Stillman, President, Daly City Public Library Associates; Redwood City Library Foundation; Redwood City Public Library Board; Ron Serrano, Immediate Past President, Paradise Friends of the Library, Member, Butte Country Library Advisory Board; Santa Cruz Public Libraries; Santa Cruz Public Libraries Joint Powers Authority Board; Sarah Houghton, Director, San Rafael Public Library; Sharon Arpoika, President, Friends of the Oakdale Library; Sharon Cohen, Director, Burbank Library Services Director; Sheridan Beuving, Chairman, Stanislaus County Library Advisory Board; Sonoma County Board of Supervisors; Stephanie Beverage, City of Huntington Beach, Director of Library Services; Steven M. Poulos, El Cerrito Commissioner, Contra Costa County Library Commission, Chair, El Cerrito New Library Community Campaign; Susan Staggs, Board Member, Friends of the Amador County Library; Teresa Barrett, City of Petaluma, Councilmember; Terry Woodrow, Chair, County of Alpine Board of Supervisors; The Humboldt Library Foundation; Torrance Library Commission; Town of Colma; Ursula Davidson, San Rafael Public Library, Volunteer; Valerie Lambertson, Member of South San Francisco Friends of the Library; Vanessa Czopek, Stanislaus County, Library Director; Wendy Rianldi, Board of Friends of the San Francisco Public Library; Yolo County Board of Supervisors; Yolo County Library Advisory Board, 63 Individuals

Opposition: Apartment Association California Southern Cities; Apartment Association of Orange County; California Chamber of Commerce; California Manufacturers and Technology Association; California Mortgage Bankers Association; California Retailers Association; California Taxpayers, George Runner, Member Board of Equalization, District 2