



July 5, 2011

The Honorable Mayor, City Council and Members of the Public  
6136 Adobe Road  
Twentynine Palms, California 92277

**Re: City Manager FY2012 Budget Message and Budget Overview.**

Dear citizens and members of the Governing Body:

In accordance with the Twentynine Palms Municipal Code and sound municipal business practices, I hereby transmit the budget for the City of Twentynine Palms for the period ending June 30, 2012. This document is divided into eight sections. They are:

**1. Strategic Planning, Implementation and Evaluation Decision-Making Process Section.** This section outlines the broad context and strategic framework in which the budget is prepared, implemented and evaluated. The Twentynine Palms budget is not prepared in a vacuum. It is a document designed to achieve the long-term goals of the community based upon community values, community vision and sound long-term strategies adopted by the City Council. The annual budget, along with its operating and capital budgets, provide the means to achieve a community based on a shared vision.

**2. City Organization Section.** This section provides information concerning the municipal organization created by the City Council and the City Manager to deliver municipal services, implement the General Plan, achieve community goals and implement the policies, goals and spending plan outlined in the FY2012 budget.

**3. Accounting and Financial Reporting System Section.** This section contains a description of each of the City's 20 accounting funds by Governmental Fund Type. These accounting funds are used to account and report the revenues, expenditures, assets and liabilities of the City of Twentynine Palms, the Twentynine Palms Redevelopment Agency and the Twentynine Palms Public Financing Authority.

**4. Accounting, Investment, Fixed Assets, Financial, Capital Improvement and Budget Policies Section.** This section reviews the major City Council and City Manager policies that guide accounting, investment, capital improvement, budgeting and protection and use of financial resources and assets.

**5. Budget Summaries Section.** This section provides FY2012 budget summaries for all 20 Governmental and Proprietary Accounting Funds of the City. These summaries are broken down by accounting fund and by functional area such as personnel expenditures, maintenance and operations expenditures, capital expenditures and debt service expenditures. This section provides the City Council and the public with a broad overview of the City's financial plan for FY2012 as outlined in the budget document.

**6. Fund Budgets Section.** This section contains the Annual FY2012 line-item budget for each Accounting Fund along with mission statements, Accounting Fund descriptions, department descriptions, revenue assumptions, footnotes, goals, performance measures and projected estimated changes in fund balance during the fiscal year.

**7. Statistical Information Section.** This section presents information regarding the City's historical revenues, expenditures, infrastructure, demographics, bonded debt, building permits, fixed assets and other related financial information.

**8. Glossary of Acronyms and Terms Section.** This section lists the definitions of commonly used governmental budgeting, accounting and financial reporting terms.

The FY2012 Twentynine Palms budget is a financial plan, operations guide, policy document and a communications device. It conforms to the highest national budget standards published by the Government Finance Officers Association (GFOA) of the United States and Canada. Its pages contain 236 goals for City departments, 258 footnotes with detailed explanations of the City's past, present and future financial transactions and activities for review by the public and the City Council.

## Planning for the Future

**The FY2012 budget is prepared within the broad context of the Twentynine Palms Strategic Planning, Implementation and Evaluation Decision-Making Process.** This decision-making process outlined in Section 1 of this budget document provides a framework for the City's strategic planning, executing and evaluating City operations, organizational structure, budgets, programs, service levels and capital projects. High performance organizations and successful businesses achieved their success by constantly planning, implementing and evaluating their operations. The City of Twentynine Palms is a multi-million dollar corporation and incorporates modern corporate planning, execution and evaluation principles into its operations to provide high levels of municipal services to serve the people effectively and efficiently.

The City Council recognizes the importance of using modern principals of corporate governance and the important role that proper planning, execution and evaluation plays in setting the future course of our community. **These principles must be applied in order to achieve the community vision established by the City Council on August 28, 2007, and meet the challenge of balancing the unique small-town character of Twentynine Palms with economic development and preservation of the desert environment.**

### **Strategic Priorities.**

The City will focus its efforts on five strategic priorities in order to achieve this balance.

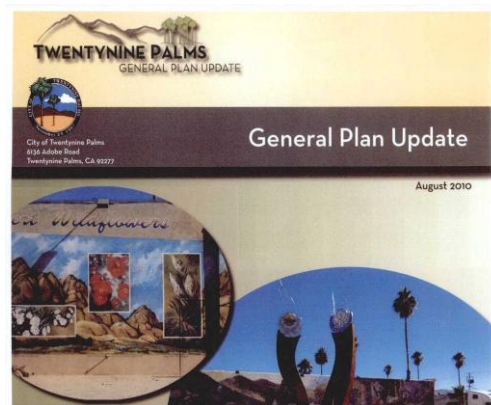
1. Land-Use.
2. Economic Development.
3. Infrastructure Development.
4. Community Services.
5. Financial Stability.

The City Council establishes strategies, goals, objectives and action plans for each of these strategic priorities. Almost everything the City does in FY2012 will be focused toward these priorities. The FY2012 budget is the primary mechanism to deploy financial and personnel resources to achieve the community vision and meet the City Council's strategic priorities in a balanced way.

## Land Use Development

### General Plan 2010.

With the assistance of the Planning Commission, Planning Consultants and the help of a number of public-spirited citizens, the City Council embarked on the development of a new community vision and a new General Plan. The General Plan if properly done will become the primary strategic planning document used to guide the development of the community over the next 20 years. It is what the private sector would call the "business plan" or "strategic plan" for the community, and incorporates Twentynine Palms' community values and vision for the future.<sup>1</sup>



Twentynine Palms' new General Plan will establish the road map for the future. It is a long-term, comprehensive, framework to guide physical, social, and economic development within a community's Planning Area. The City of Twentynine Palms' General Plan is a long-range guide for attaining the City's goals within its Sphere of Influence (SOI) and accommodating its population growth to the year 2030. It coordinates all components of the City's physical development and sets objectives, policies, and standards, which guide future growth within the City's Planning Area. The Planning Area includes the Sphere of Influence (SOI), which represents the geographic area the City could use to expand. (Please see Figure 6.)

The City of Twentynine Palms is a unique community with numerous natural resources. The City limits encompass 58.82 square miles (37,642.84 acres), which includes 3.9 square miles of the Marine Corps Air Ground Combat Center. A total of 30.5 square miles (19,539.85 acres) of unincorporated area have been designated as part of the City's "Sphere of Influence" (SOI) for possible future expansion of the City limits. Together, the 89.3 square mile area comprises the General Plan's planning area.

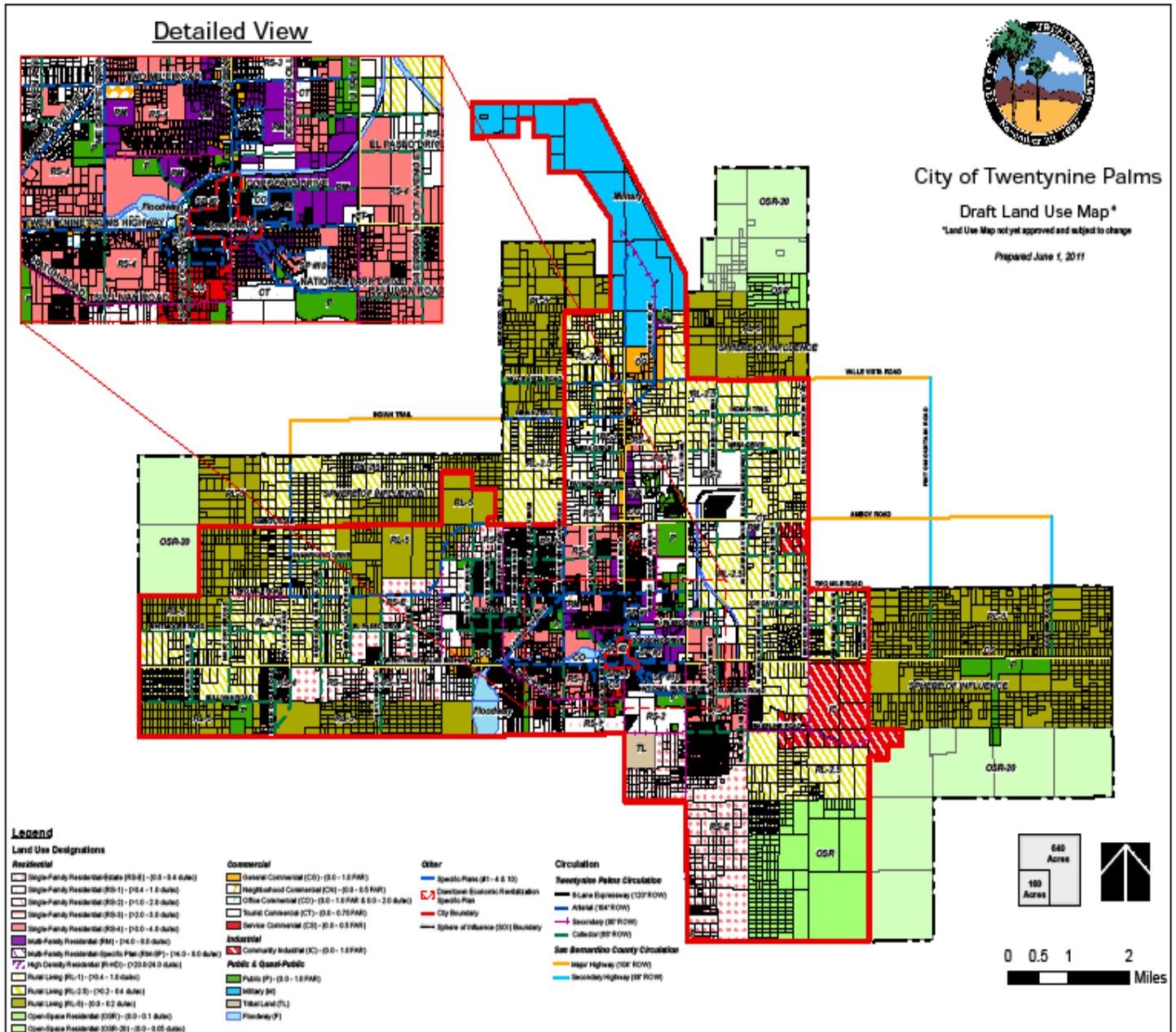
Twentynine Palms enjoys exceptional weather, good air quality, dark skies, vast open lands and stunning scenic views and vistas. Major national landmarks and facilities such as the Joshua Tree National Park, and the Marine Corps Air Ground Combat Center (MCAGCC) are located within and adjacent to the City, which adds to the exceptional economic opportunities of Twentynine Palms. The overall vision of the General Plan is to protect and preserve existing natural resources for future generations while enhancing and promoting the economic development of Twentynine Palms.

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<sup>1</sup> California Government Code Section 653000 requires each city and county to adopt a General Plan "for the physical development of the county, or city, and any land outside its boundaries which bears relation to its planning." The General Plan is the policy document from which all local land use decisions must be derived. Many of the specific ways to achieve the goals of the General Plan are spelled out in other regulatory documents. In 1971, the State passed the "consistency law" and placed the General Plan at the top of the legal hierarchy of land use regulation within a city. All specific plans, the zoning ordinance, and every other land use regulation within a City must be consistent with the City's General Plan and must be consistent with one another.

Through its pages, the General Plan outlines the goals and implementation policies that provide specific direction for decision making and formulation of public policy. The goals and policies of the General Plan are intended to provide a framework for decision makers to determine whether projects are consistent with the vision of the City. It covers land use, circulation, housing, safety, conservation and open space, noise and recreation.

**Figure 6  
General Plan Map**



## **Housing Development.**



**General Plan Housing Element.** The City continues to work to diversify, enhance and improve its housing stock. California Government Code Section 655800 states that “the availability of housing is of vital statewide importance, and the early attainment of decent housing and a suitable living environment for every Californian, is a priority of the highest order.” As a result of this declaration, the Legislature has required that all cities and counties prepare a Housing Element as part of their General Plan. The Housing Element is only good for five years and is the only element of the General Plan that must be submitted to the California Department of Housing and Community Development (HCD) in order to determine compliance with state laws.

On September 15, 2009, the City Council approved a new Housing Element of the General Plan and submitted it to the California Department of Housing and Community Development (HCD) for approval. The State sent back their comments to the City on December 10, 2009. Twentynine Palms’ Community Development Department has been working with the City’s consultant and the staff of the California Department of Housing and Community Development (HCD) to make the requested changes and obtain State approval. The final Housing Element of the General Plan will go forward to the City Council once the City receives approval from the State.

**Low- and Moderate-Income Housing Development.** In addition to completing a new Housing Element of the General Plan, the City will be an active participant in the Regional Housing Needs Assessment (RHNA) during FY2012. The Regional Housing Needs Assessment (RHNA) is a process that State law requires the Southern California Association of Governments (SCAG) to perform as part of the Housing Element and General Plan updates adopted at the local government level. The RHNA quantifies the need for housing by income group within each jurisdiction during special planning periods, based on a regional housing target set by the California Department of Housing and Community Development (HCD).<sup>2</sup> The Planning period for the upcoming RHNA is October 2013 to September 2021.

## **Economic Development**

A central component of the City’s planning efforts is economic development. Economic development is the sustained creation of community wealth and the generation of tax revenues through the retention, expansion and development of diversified business opportunities that are compatible with the environment, community values and community vision. The development of a strong City economy is essential to providing employment opportunities and tax revenues to underwrite the cost of municipal services. The City Council understands this and believes that the quality of life in Twentynine Palms will ultimately be determined by the level of community economic activity.

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<sup>2</sup> The Regional Housing Needs Assessment (RHNA) consists of two measurements:

1. The existing need assessment examines census data, to measure how the housing market is meeting the needs of current residents, including low-income households and crowded housing units.
2. The future need assessment is determined by the Southern California Association of Governments (SCAG) growth forecast and local input process. Each new household creates the need for more housing. The anticipated need is then adjusted to account for an ideal level of vacant units.

## **Economic Development Strategies.**

Twentynine Palms has many great features including desert lands, scenic vistas, year-round sunshine, warm winter weather, clean air, clear night skies, murals, low crime and a rural character, located near two major economic development drivers. Twentynine Palms should capitalize on its strengths and focus its economic development strategies in three areas:

**1. Increase the Number and Length of Stay of the Visitors to Twentynine Palms.** Twentynine Palms has many advantages over other jurisdictions in the region, including its proximity to the Joshua Tree National Park and the U.S. Marine Corps Air Ground Combat Center (MCAGCC). Twentynine Palms should seek to take advantage of its location and these two resources by directly catering to military personnel and the millions of annual visitors. The National Park is visited by approximately 1.4 million visitors a year while the U.S. Marine Corps Air Ground Combat Center (MCAGCC), the largest military training area in the United States, and has 28,600 overnight visitors.<sup>3</sup> Twentynine Palms has a rich history, museums, art galleries and beautiful murals that can be marketed. Community-wide events such as the Street Fair Car Show, Pioneer Days and productions at Theatre 29 can be promoted to bring visitors into town. Twentynine Palms is also the first City encountered by people traveling from Arizona and the Parker Dam area to Southern California. The community needs to be marketed as a gateway to the park, the base, the desert, other destinations in Southern California and as a visitor destination for cultural, scientific, outdoor and other events. Travelers should be enticed to visit, stay and enjoy everything that Twentynine Palms has to offer.

In addition to current visitor destinations, the City should increase economic activity by attracting and expanding other visitor-oriented facilities and activities such as the new Joshua Tree National Park Oasis of Mara Visitor Center, the Sky's the Limit Observatory and Nature Center and expansion of the U.S. Marine Corps Air Ground Combat Center (MCAGCC).

**2. Capture the Economic and Financial Transactions of the Personnel Working and Living at the U.S. Marine Corps Air Ground Combat Center (MCAGCC).** The U.S. Marine Corps Air Ground Combat Center (MCAGCC) employs 14,811 civilians and military personnel living on the base.<sup>4</sup> Twentynine Palms should create a marketing plan that targets military personnel, their families, and civilians working at the base. Part of the marketing plan should be to work with the military to increase the number of non-military sales tax generating businesses on the base or right outside its gates. In addition to marketing the City to the civilian and military personnel, the City should work with local businesses to assist them in getting contracts to provide goods and services to the base. According to the

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<sup>3</sup>CB Richard Ellis Consulting estimated that 17,200 or 60% of the military visitors to the U.S. Marine Air Ground Combat Center (MCAGCC) stay on base in billeted quarters and the balance of approximately 11,400 stay in hotels in the City of Twentynine Palms each year. These visitors generate demand for a total of approximately 69,000 room nights for off-base hotel accommodation. By 2015, CB Richard Ellis Consulting estimated that total number of annual overnight visitors will be approximately 33,200 with the number staying in hotel accommodations off-base increasing to approximately 80,000 room nights in off-base accommodation. ("Downtown Revitalization Feasibility Study for City of Twentynine Palms," CB Richard Ellis Consulting, October 2006, p. iii.)

CB Richard Ellis Consulting estimated that 2006 retail expenditures for base overnight visitors at approximately \$4.3 million, of which approximately 80% or \$3.4 million. This demand base was expected to increase to approximately \$5 million by 2015. ("Downtown Revitalization Feasibility Study for City of Twentynine Palms," CB Richard Ellis Consulting, October 2006, p. iii.)

<sup>4</sup>CB Richard Ellis estimated that the retail sales leakage for Twentynine Palms was approximately \$150 million to \$160 million. One of the key objectives is to tap the entertainment and general merchandise expenditures of military personnel currently served by Yucca Valley.

latest figures available from the Marine Corps, a total of \$152,266,179 was awarded in personnel, goods and services contracts during FY2007.<sup>5</sup>

**3. Make Twentynine Palms a Premier Location for Artists to Live and Military Personnel and other People to Retire.** The desert lands, scenic vistas, year-round sunshine, warm winter weather, clean air, clear night skies, murals,<sup>6</sup> low crime rate, excellent schools and community amenities make Twentynine Palms an excellent place to live and retire. The City's rich art heritage and numerous local artists make Twentynine Palms an ideal location for new artists to live and be creative.

**The City and the Redevelopment Agency will need to focus its resources (especially with regard to the 2011 bond proceeds) to eliminate blight, create jobs and transform and revitalize the downtown.** The City will spend \$25,000 on marketing and business promotion and another \$50,000 on other economic development efforts from the Redevelopment Agency. These funds will be combined with \$90,000 tourism advertising budget and the \$25,000 business recruitment and promotion budget in the General Fund economic development budget. Funds will be spent in accordance with a marketing plan developed by elected officials, the Chamber of Commerce, the Innkeepers Association and other local businesses and interested stakeholders.

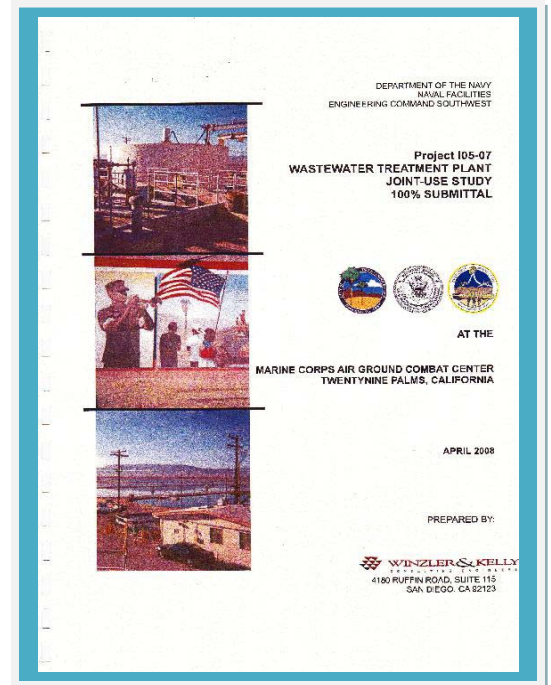
The City will continue to market itself through participation in the California Welcome Center (\$12,000) and supporting the Twentynine Palms Chamber of Commerce and Visitors Center (\$38,000). The City will spend \$50,000 on "Welcome to Twentynine Palms" Gateway signs.

## Infrastructure Development

### **Wastewater System.**

**Background.** The entire City, except for the annexed Mainside area at the U.S. Marine Corps Air Ground Combat Center (MCAGCC) is currently on septic systems and leach fields. In June 2003, a Joint Use Wastewater Treatment Plant Regional Facility Study for the U.S. Marine Corps Air Ground Combat Center (MCAGCC), Base and the City of Twentynine Palms was completed by Winzler & Kelly Consulting Engineers. That study recommended against a joint-use facility for the treatment of wastewater generated by the City and the U.S. Marine Corps Air Ground Combat Center (MCAGCC) due to the cost and lack of any information demonstrating there was a problem.

In April 2008, a second study by Winzler & Kelly Consulting Engineers was issued. The object of that study was to provide a basis of comparison between a joint-use facility for treatment of combined wastewater flows and a new facility for separate treatment. Two joint-use and three separate-use alternatives were evaluated for treatment



**Wastewater Treatment Plant Joint Use Feasibility Study-- FY2008**

<sup>5</sup> "Downtown Revitalization Feasibility Study for City of Twentynine Palms," CB Richard Ellis Consulting, October 2006, p. iii.

<sup>6</sup> The Oasis of Murals program consists of painting historical and cultural murals on the facades of community walls and buildings in the City. The murals have significantly increased the aesthetics in the area, promoted historical appreciation, increased cultural awareness, and spurred downtown revitalization and economic growth through increased tourism and business. The Action Council for 29 Palms, Inc. has completed 25 murals.

of the area's wastewater. Joint-use alternatives included upgrading the existing Mainside Wastewater Treatment Plant (WWTP) and construction of a new wastewater treatment plant at a location between MCAGCC and the City. Separate-use alternatives for the City include using decentralized package wastewater treatment facilities or centralized system that would use either a natural process or a mechanical process for wastewater treatment.

After comparing the total capital costs for each alternative, each was very expensive with the exception of Separate-Use Alternative #1. Because the City of Twentynine Palms currently uses individual septic systems, there is no existing infrastructure to be used for a city-wide collection program. Collection pipelines, laterals and a trunk sewer main will all be required for collecting and transporting wastewater to the desired facility. Based on the proposed area of service, it was estimated that that collection facilities and a sewer trunk line will cost approximately \$34 million.

The recommendation of the report was that Separate-Use Alternative #1 (Decentralized) be used for the treatment of the City of Twentynine Palms wastewater. Separate-Use Alternative #1 proposes the use of packaged wastewater treatment plants for the treatment of wastewater generated by major subdivisions. Capital costs for this alternative are small for the City as the construction and associated collection facilities would be financed by the developers of new subdivisions.<sup>7</sup>

**Wastewater Treatment System Feasibility Study.** The Regional Water Quality Control Board (RWQCB) has expressed concern over the potential contamination of groundwater resources by nitrates from the improper installation and maintenance of septic systems in Twentynine Palms. They have required several new subdivisions and commercial developments in recent years to incorporate into their development the construction of small "package" wastewater treatment plants and localized collection systems to collect and treat wastewater independent of the City. In addition, the Regional Water Quality Control Board (RWQCB) is requiring Yucca Valley to construct a wastewater treatment plant and collection system and the City of Twentynine Palms may be required to do so in the near future. **The City will spend \$100,000 in FY2012 to update the 2008 Wastewater Treatment Plant Joint-Use Study and examine the legal, regulatory, fiscal and technological issues surrounding the proper handling of wastewater in Twentynine Palms. The study will also include an examination and analysis of the management and maintenance of current wastewater treatment "package" plants.**

## **Water System.**

The development of water and wastewater infrastructure is a critical element in developing a strong residential, commercial and industrial base.

**Water System Overview.** Water services are provided to the Twentynine Palms planning area by the Twentynine Palms Water District (TPWD). The Twentynine Palms Water District's (TPWD) potable water system consists of over 200 miles of distribution pipelines, 10 active production wells, eight booster stations and 10 water storage reservoirs. The Twentynine Palms Water District (TPWD) also operates a fluoride removal water treatment plant designed to remove high levels of fluoride from the local ground water.

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<sup>7</sup> Wastewater treatment "package plants" treat multiple dwellings or heavier users, such as industrial or commercial development. Package treatment plants operate in a similar manner as centralized municipal facilities. Wastewater is accepted into the package plant where it goes through a process of solids removal, aeration, clarification and chlorination prior to discharge into a leach field. There are numerous manufacturers for a variety of sizes of package treatment plants. There are currently three package treatments plants in operation in Twentynine Palms. They are Desert Knoll subdivision, Turtle Rock subdivision, and the Holiday Inn Express. An additional 11 package treatment plants have been proposed or are approved for various residential tract maps.

The Twentynine Palms Water District (TPWD) maintains approximately 7,700 meter services within its boundaries, 93% of which are residential connections. Water demand for the Twentynine Palms Water District (TPWD) service area was last estimated in 2004 during preparation of the 2005 Urban Water Management Plan (UWMP). Water demand in 2004 was approximately 3,286 acre feet per year (AFY). Today, water demand is estimated to be at approximately 3,286 acre feet per year (AFY).

**Water System Improvements (FY2012).** The Twentynine Palms Water District will spend \$500,000 during FY2012 to complete engineering for the expansion of its water treatment plant. They will also spend \$250,000 to replace the district parking lot in front of the building and \$150,000 in parking lot improvements in the rear of the building. A vehicle will also be replaced for \$55,000, computer hardware and software replacements will be made for \$15,000, and another \$15,000 will be set aside for emergencies and contingencies.

**In addition to these capital expenditures, the Twentynine Palms Water District will shortly be updating their Urban Water Management Plan. This is a very important document for the City, Water District and the people of Twentynine Palms and it is important that elected officials, staff and interested resident be involved in this process.** California Water Code, Division 6, Section 10610 et seq. requires all urban water suppliers within the state to prepare Urban Water Management Plans (UWMPs) and update them every five years. Such plans satisfy the requirements of the Urban Water Management Planning Act (UWMPA) of 1983, including amendments to the Act. The code requires that an Urban Water Management Plan (UWMP) must include historic, current and future supplies and demands for water; address conservation measures, and describe potential supply deficiencies during drought conditions and the ability to mitigate these conditions; compare total projected water use and water supply sources over 20 years in 5-year increments, for a single dry water year and for multiple dry water years; and provision for recycled water use, demand management measures and a water shortage contingency plan.

### **Parks and Recreation.**

Parks and recreation programs will continue to be a major priority in Twentynine Palms. The Community Services Department will continue to offer a wide range of recreation programs and will continue its partnership with community non-profit organizations and other community partners including the Youth Club, Morongo Unified School District, Hi-Desert Youth Football Association, Twentynine Palms Little League, Hi-Desert Pony League, Sky's the Limit Observatory and Nature Center, Public Arts Advisory Council, Theatre 29, Knott's Sky Park Preschool and the Twentynine Palms Swim Team.

In addition to continuing its current programs, the Community Services Department will spend \$75,000 to rebuild the well in Luckie Park, \$15,000 to slurry seal the Community Center parking lot and \$70,060 to upgrade the swimming pool to meet new San Bernardino County standards. \$80,000 will be spent in Knott's Sky Park to complete an electrical master plan and install the underground electrical facilities at the park. \$20,000 has also been reserved in the General Capital Projects Fund to replace the mural removed by Walgreens.

### **Street and Sidewalk Infrastructure.**

The improvement of the City's street, curb, gutter and sidewalk infrastructure will be a major priority for the City Council during FY2012. The City will contribute \$200,000 to the widening of Highway 62 from Sunrise to Canyon to include a turn lane and two traffic lanes in each direction. The environmental document has been approved, the engineering has been completed and this project was sent out to bid by the California Department of Transportation (CalTrans) in May 2011.

**In addition to this highway widening project, the City will use \$500,000, including \$200,000 in Measure I funds and \$300,000 from the Redevelopment Agency Capital Projects Fund to complete the environmental document, engineering and phase I construction of street widening, curb, gutter and Sidewalk from Encelia Avenue to Split Rock Avenue on Highway 62.**

To allow residential areas north of the City better access to the commercial areas on Highway 62, the City will spend \$200,000 from the General Capital Projects Fund to construct 0.25 miles of two-lane road on Encelia Drive from Sunnyslope Avenue to Two-Mile Road.

During FY2012, the City will also spend \$450,000 to construct curb, gutter and sidewalk on the west side of National Park Drive from Highway 62 to the Joshua Tree National Park Headquarters to promote economic development and improve pedestrian circulation between the National Park and downtown. Project includes constructing sidewalk completely around the Old School House Museum and in front of the 29 Palms Art Gallery. The City has reserved another \$500,000 for curb, gutter and sidewalk construction in the downtown area at a location to be determined by the City Council.

**The City will also spend \$245,000 in Transportation Development Act Article 3, Pedestrian Bicycle funds obtained through the San Bernardino County Associated Governments (SANBAG) to construct new sidewalks near Oasis Elementary School**, running north of El Paseo Drive along Hillside Avenue and extending west into the residential neighborhood of Sun Valley Drive and Sunnyvale Drive. The sidewalks are designed to increase safety in the area for residents, especially children and youth traveling to and from school, who currently have to walk in the street or navigate dirt paths adjacent to the roadway. The SANBAG grant will also allow the City to link the curbs, gutters and sidewalks project with a previously installed curb, gutter, and sidewalk project near the same area using a California Department of Transportation (CalTrans) Safe Routes to School grant. This project will also include \$106,000 from the Curb, Gutter and Sidewalk Development Impact Fees Capital Projects Fund to match the grant funds from SANBAG and \$200,000 in Measure I funds to reconstruct Sun Valley Drive.

**In addition to the projects mentioned above, the City will spend \$200,000 in Transportation Development Act (TDA) funds for slurry seal projects, \$728,800 in Measure I funds for advanced seal projects and another \$1,918,000 in Measure I for street overlays throughout the City.**

### **Undergrounding of Overhead Power Lines.**

The Public Utilities Commission requires Southern California Edison to set aside a portion of the revenue derived from Twentynine Palms customers for the undergrounding of overhead power lines. There is currently \$863,410 in this account and this amount increases by approximately \$69,059 per year. The City staff is currently studying potential undergrounding projects and will shortly bring forward options for the City Council to consider.

### **Redevelopment.**

Redevelopment Agency Capital Projects Fund also includes \$285,000 to eliminate abandoned, dangerous and blighted buildings, \$300,000 to develop and implement a property improvement program to assist business owners, \$25,000 for sidewalk repairs, \$750,000 for Project Phoenix, and \$150,000 for projects to be designated at a later date by the City Council. **Total Redevelopment Agency Capital Projects Fund spending during FY2012 will be \$2,261,500. The City will also spend \$863,410 to underground power lines during FY2012.**

# Federal and State Impacts on Twentynine Palms

As you can see, Twentynine Palms is moving forward and has a bright future. However, the City is faced with many challenges brought on by events beyond Twentynine Palms' City limits and beyond the control of the City Manager and City Council. The national economy and state economy, as well as Federal and State governmental laws and regulations, will continue to have a huge influence on the City of Twentynine Palms.

**Since the passage of Proposition 13 in 1978, there has been a trend toward increasing centralization of political power in Sacramento, decreasing financial control by city governments, and loss of home rule for cities and counties. These trends will probably continue in FY2012 and beyond.**

## National Economy.

**Economic Growth.** The national economy will continue its slow recovery in 2012. Consumer spending, which accounts for about two-thirds of total Gross Domestic Product (GDP), slowed in the first quarter of 2011 to an annual increase of 2.7%. That is down from the fourth quarter of last year when consumer spending was rising 4% per year. The Gross Domestic Product (GDP) rose a tepid 1.8% during the first half of 2011.<sup>8</sup> However, continuing improvement in the economy will result in an increase in Gross Domestic Product (GDP) of 3% for the year. Durable goods orders and industrial production are up, even though housing remains weak.<sup>9</sup>

<b>Gross National Product</b> 3% growth in 2011 after increasing 2.9% in 2012.	<b>Trade Deficit</b> \$498 Billion in 2011 \$510 Billion in 2012
<b>Interest Rates</b> No change in Prime Rate at 3.5% 10-Year Treasury rates will vacillate between 3.25% and 3.75%.	<b>Energy</b> Crude oil settling into a \$95-\$105 trading range.
<b>Inflation</b> 1.5% in 2011 3% in 2012	<b>Housing Sales</b> 2% decline in home values in 2011 2 million foreclosures in 2011
<b>Unemployment</b> Bouncing around during the year, but finishing at 9% at year end.	<b>Retail Sales</b> Rising about 3% during 2011
<b>Business Spending</b> 8% in 2011 after increasing 5.6% in 2010. Rising energy costs could roll business spending back to 2010 levels.	<b>Consumer Sentiment</b> Rising gasoline prices renew worries.

The California Legislative Analyst Office (LAO) projects that the national Gross Domestic Product (GDP) will grow no more than 3.1 % per year between now and 2016.<sup>10</sup> Unfortunately, even a 3% increase in Gross Domestic Project (GDP) will not be enough to make much of a dent in unemployment. It would take growth of 4% for a full year to lower the unemployment rate—now at 8.8% by just one percentage point. Federal Reserve Chairman Ben Bernanke estimates that annual growth around 3.5 % means that it would take five or six years for the job market to return to normal.

**What Is Causing the slow recovery?** The slow recovery results from a combination of (1) excess inventories of residential and commercial real estate, (2) severely depressed economic confidence among both individuals and firms, and (3) for many consumers, a considerably weakened financial capacity to spend and invest. Consumers are attempting to restore their personal finances amidst the weak labor markets and diminished housing wealth. Credit remains very tight. While businesses have been spending more in recent quarters to address equipment, software, and other needs they deferred during the recession, they remain very reluctant to hire. The construction industry remains flat on its back—with few immediate prospects—due to the massive fall in residential and commercial real estate markets. While massive fiscal stimulus from the federal government helped cushion the fall, the 2009 stimulus program spending will taper off in the coming quarters, and the

<sup>8</sup> "Economic Outlook, Indicators, Forecasts," [Kiplinger.com](http://Kiplinger.com), April 21, 2011, p. 1.

<sup>9</sup> [The Kiplinger Letter](http://TheKiplingerLetter.com), Vol. 88, No. 17, April 29, 2011, p. 1.

<sup>10</sup> "The 2011-12 Budget: California's Fiscal Outlook," [California Legislative Analyst Office](http://CaliforniaLegislativeAnalystOffice.com), November 10, 2010, p. 11.

likelihood that Congress will enact additional fiscal stimulus appears remote. The Federal Reserve continues to take actions to stimulate the economy, but, with interest rates already at very low levels, its ability to achieve much in this regard is limited.<sup>11</sup>

**“Double-Dip” Recession is not likely.** While the economic and revenue forecasts reflect very modest assumptions about near-term growth, they are by no means a worst-case scenario. A minority of economic commentators have suggested that a double-dip recession—another period of diminished economic output—is possible due to the coming declines of federal economic stimulus, continued weakness in consumer spending, turmoil in the world’s sovereign debt and currency markets, and other factors. These forecasts reflect the consensus view that a double-dip recession will not occur. While employment, personal income, output, and housing permit growth are very weak by historical standards during a recovery, they are not shrinking. In addition, while there will probably be low inflation through 2015–16, there will probably not be a period of deflation in the U.S. economy. In large part, our economic outlook reflects the view that some key economic measures (such as construction activity) have fallen so far that there is little room to fall even more.<sup>12</sup> The good news is that nearly all states are now out of recession. Only two (Mississippi and Nevada) are continuing to shrink.<sup>13</sup>

**Business Spending.** Business spending for things like buildings and equipment is expected to increase by 8% this year, even though firms are coping with rising energy costs and concerns about a weakening economy. This assumes that the global economic environment does not become more hostile due to rising energy costs. A less conducive environment would likely have businesses just match last year’s pace of a 5.6% increase in business spending.

Spending on construction will continue to be soft, until vacancy rates for offices, industrial space and retail decline. Businesses are concerned about the future economy and these fears are starting to manifest themselves in spending on equipment. Durable goods orders, excluding aircraft, fell in February 2011. Even though weather played a potential role in the decline, it is clear that this decline was widespread and included everything from machinery to primary metals.

After increasing nearly 8% in the fourth quarter of 2010, business investment in equipment likely rose only 5% in the first quarter of 2011. If oil prices stay between \$100 and \$110 a barrel, business investment in equipment could increase to 12% per year.

Meanwhile, a significant increase in spending on construction – the other component of business investment -- will require sustained job growth of more than 200,000 new jobs a month into the fall, when companies will be mapping plans for 2012. Nevertheless, a small increase of only 2% is probably likely. This is a big improvement over 2010, when the number of jobs in the economy contracted by 13.8%.<sup>14</sup>

**Inflation. Despite the sluggish pace of the economic recovery, price increases are starting to spread, raising alarms about inflation.** With the economy still in low gear, an inflationary spiral is not a huge possibility during 2012. Unemployment is still very high, making it difficult for workers to demand big wage hikes. But there’s increasing evidence that the tide is changing. Consumer prices rose 0.4% in April following price gains of 0.55% in February and March 2011. The Consumer Price Index (CPI) rose 3.2% over a 12-month period from April 2010 to April 2011.<sup>15</sup>

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<sup>11</sup> “The 2011-12 Budget: California’s Fiscal Outlook,” California Legislative Analyst Office, November 10, 2010, p. 12.

<sup>12</sup> “The 2011-12 Budget: California’s Fiscal Outlook,” California Legislative Analyst Office, November 10, 2010, p. 12.

<sup>13</sup> The Kiplinger Letter, Vol. 88, No. 13, April 1, 2011, p. 1.

<sup>14</sup> “Economic Outlook, Indicators, Forecasts,” Kiplinger.com, April 21, 2011, p. 1.

<sup>15</sup> “Gas, Food Costs Propel Prices,” The Wall Street Journal, May 14, 2011, p. A-2.

Consumer prices are likely to climb at least 3% this year--nearly double last year's rate of 1.5%. The core inflation rate (which does not include food and energy) will increase approximately 2% this year. **The risk of rising inflation will increase as economic growth picks up speed, unemployment declines and prices start to climb more swiftly.**

In the near future, the cost of money will rise as well, as the Federal Reserve moves from a policy of easing the money supply to neutral and then to tightening. The Federal Reserve Chairman Bernanke and his colleagues will probably raise the benchmark federal funds rate in early 2012, triggering a hike in banks' lending rates. Household rents have likely bottomed out while rents for high quality offices are already on the rise. Next year, the uptrend will spread to warehouses, storefronts and other office space, as well as to apartments. Any company that can is trying to pass on their higher operating costs. From detergent makers to pizza peddlers, manufacturers are adding pennies to price tags or reducing the size of their packages.<sup>16</sup> Already in the past three months, prices have risen by an annualized rate of 7% or more for airfares, new cars and trucks, used cars and trucks, and medicines.<sup>17</sup>

**Food prices in the United States are likely to rise 4% this year.** Price increases are being driven by higher agricultural production and distribution costs, as well as the use of corn in ethanol production. In addition, as developing nations such as Brazil, China and India grow, their citizens can afford a higher quality of life and will consume more meat and grain.<sup>18</sup>

Gasoline prices, which accounted for half of the 0.4% rise in the Consumer Price Index (CPI) in April 2011, will linger around \$4 a gallon through the summer. Gas prices are up 33% over the past 12 months. However, wage increases will be minimal during 2012 due to high unemployment. Salary increases are up only 1.9% over the past 12 months.<sup>19</sup>

Inflation worries are likely to keep gold prices on a long-term upward trend. Demand from China and Russia will help to keep prices rising. They are among the investors that see gold as a hedge against both a weakening dollar and rising inflation.<sup>20</sup>

**Interest Rates. The Federal Reserve will keep its benchmark short-term interest rate near zero into early next year.** Some observers think that policy should soon shift from easing to tightening in order to ward off inflation. But Federal Reserve Chairman Ben Bernanke still feels that the economy is still weak, especially in light of the tepid 1.8% growth in Gross Domestic Product (GDP) growth during the first quarter of 2011.

Although some members of the rate-setting Federal Open Market Committee (FOMC) question the policy of keeping rates near zero, no one formally dissented from that position at the April 26-27 FOMC meeting. Still, the Federal Reserve's recent decision to stop buying up long-term Treasury debt -- while reinvesting in Treasury debt as notes mature, keeps their U.S. Treasury portfolio debt level. This signals that the FOMC will be revisiting its policy at the next meeting.

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<sup>16</sup>Jerome Idaszak, "How Big is the Risk of Inflation," [Kiplinger.com](#), May 16, 2011; "Economic Outlook, Indicators, Forecasts," [Kiplinger.com](#), May 13, 2011, p. 2.

<sup>17</sup>"Economic Outlook, Indicators, Forecasts," [Kiplinger.com](#), May 13, 2011, p. 2; [The Kiplinger Letter](#), Vol. 88, No. 18, May 13, 2011, p. 1.

<sup>18</sup>"The Rising Cost of Food," [Kiplinger.com](#), May 2011.

<sup>19</sup>"Economic Outlook, Indicators, Forecasts," [Kiplinger.com](#), May 13, 2011, p. 2-3.

<sup>20</sup>[The Kiplinger Letter](#), Vol. 88, No. 18, May 6, 2011, p. 1.

Federal Reserve Chairman Ben Bernanke will not take even a small step toward tightening interest rates until the unemployment rate falls from the current 8.8% to around 8%. He and his allies do not worry that low rates will lead to rampant inflation. While acknowledging that the prices of energy and other commodities are causing some inflation in the short run, they believe that the situation is “transitory” and foresee prices easing during the second half this year. With the benchmark federal funds rate staying near zero, banks will keep their prime lending rate at 3.25%. The central bank has no direct control over long-term rates. The 10-year Treasury rate is vacillating between 3.25% and 3.75%. It will end the year near the higher end of that range.<sup>21</sup>

**Employment.** Strong job growth in April 2011 will lessen concerns that the economy is faltering. The net increase of 244,000 jobs last month was slightly stronger than in the previous two months. Even so, it will hardly put a dent in the ranks of the 14 million people out of work.

**Unemployment rose to 9% in April 2011, ending four straight monthly declines.** The jobless rate is not likely to fall much lower this year. This is because people who lost their jobs grew discouraged and quit looking for work. Now, as they see hiring on the upswing they will try to re-enter the labor force. That drives up the number of active job seekers and keeps the unemployment rate elevated, even as more jobs are created and more people are hired. Approximately two million jobs will be created this year -- not good enough to quickly recover the more than eight (8) million jobs lost in the recession. **By year-end, the unemployment rate is not likely to be much different from what it is now.**

Job gains were broad-based in April 2011. Manufacturing added 29,000 jobs, health care added 37,000 jobs, hotel and restaurant employment rose by 46,000 and retail jobs increased by 57,000. Even construction, flat over the past 12 months, added 5,000 jobs. In the other direction, the number of government jobs continues to shrink, with federal payrolls dropping by 2,000 and state and local governments shedding 22,000 net jobs.

While the latest Labor Department report was a plus, some trouble spots remain. The number of people working part-time who want a full-time job inched up to 8.6 million from 8.43 million. In addition, the average hourly earnings increased only 1.9% over the past 12 months. This means that workers are not keeping up with inflation, which increased about 3% over the same period.<sup>22</sup> To keep the economy humming at an average Gross National Product (GDP) growth rate of three percent (3%) per year, two (2) million jobs will need to be created and incomes need to rise.<sup>23</sup>

**Trade.** The trade deficit is likely to increase this year, to around \$510 billion from \$498 billion in 2010. Driven by a weak U.S. dollar, exports set a new record of \$172.7 billion in March. With imports of \$220.8 billion, the trade deficit climbed to \$48.2 billion in March, up from \$45.4 billion in February 2011. The trade deficit will continue to grow as demand for foreign goods picks up with the ongoing United States recovery, and as a slowdown in some of the world’s fastest-growing economies reduces demand for goods from the United States.

Exports will climb 10% in 2011 compared with a 17% jump last year. March 2011 exports rose nearly 15% over the previous year, and about 4.5% over February, the biggest month-to-month gain in 17 years. Exports of industrial supplies and materials, automotive vehicles and capital goods were higher than in February 2011.

Imports to the United States will also see slower growth this year. Following a 20% increase last year -- the largest since 1984 -- the value of U.S. purchases from abroad is likely to grow by about 11% this year. Climbing oil prices will keep the total dollar amount up, despite declines in the value of many imported goods,

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<sup>21</sup> “Economic Outlook, Indicators, Forecasts,” [Kiplinger.com](http://Kiplinger.com), May 13, 2011, p. 2.

<sup>22</sup> “Economic Outlook, Indicators, Forecasts,” [Kiplinger.com](http://Kiplinger.com), May 13, 2011, p.3.

<sup>23</sup> [The Kiplinger Letter](http://TheKiplingerLetter.com), Vol. 88, No. 18, May 6, 2011, p. 2.

including apparel and telecom equipment. Imports increased in March for industrial supplies, automotive vehicles, and capital goods, while consumer goods decreased.

The soft dollar will continue to push exports higher by making American goods cheaper overseas. The dollar has been weighed down as the Federal Reserve continues to ease the monetary supply in the U.S. to nudge the economic recovery along. However, the dollar is likely to strengthen as foreign nations raise interest rates to ward off higher inflation.<sup>24</sup>

**Energy.** West Texas Intermediate (WTI) crude oil prices to remain in a trading range of \$95-\$105 per barrel in coming weeks after pulling back from the \$115-per-barrel level. What happened? A classic market correction, as traders realized that prices were not sustainable on a fundamental supply and demand basis.

But falling oil prices will not spell immediate relief at the gasoline pump. In fact, gasoline, at the national average of \$3.90 per gallon, is up almost \$1 over last year. However, the national average price is not likely to climb to over \$4 per gallon even as the U.S. enters its high driving season. Gasoline prices lag oil prices by several weeks so the oil sell-off will not be reflected in the price at the pump until June at best. Gasoline prices may even fall further this spring, perhaps retreating to the \$3.75 level. Diesel, at \$4.01 per gallon, is also up more than \$1 over the year-ago price, but will slowly decline, following the price of oil.

West Texas Intermediate (WTI) crude oil, the benchmark for oil pricing in the United States, now stands at around \$100 per barrel. The top overseas oil benchmark, Brent Crude or North Sea oil, is trading just over \$110 per barrel, having retreated from over \$120 per barrel.

Crude prices still carry a \$10- to \$15-per-barrel “risk premium” stemming from disturbances in the Middle East and North Africa. Although there are no real supply disruptions, traders’ fears about the potential for shutdowns keep prices higher than they normally would be given supply and demand. That means prices are likely to fall further still if the Libyan situation gets resolved anytime soon. Of course, if the troubles in the Middle East and North Africa spread to large oil producers such as Saudi Arabia, all bets are off and oil could spike to higher levels. But currently the Saudis say supplies are plentiful, and they have even cut back shipments by 800,000 barrels per day because of lack of demand.

Natural gas prices continue to be a bargain. At Henry Hub, the pricing point for natural gas futures on the NYMEX, prices dropped to \$4.18 per million British thermal units this week from \$4.34 per MMBtu a week ago.<sup>25</sup>

**Housing.** **The long-awaited recovery in housing starts and sales now looks unlikely until next year.** The bottom appears to have been reached, but the sector is not generating any momentum. Average prices will decline another 2% this year.

There continues to be too many distressed sales resulting from foreclosures. In addition, legal battles over the accuracy of mortgage paperwork is delaying selling off a high inventory of unsold homes. Foreclosures totaled about 1.8 million in 2010 and will hit about 2 million this year.<sup>26</sup> One in four mortgages remain underwater, but as layoffs continue to decline and hiring shows modest gains, fewer borrowers will wind up defaulting on loans.<sup>27</sup> The homeownership rate has slipped from a peak of 68% to 66.5% this year and is headed back to the historical norm of 64%.<sup>28</sup>

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<sup>24</sup> “Economic Outlook, Indicators, Forecasts,” [Kiplinger.com](http://Kiplinger.com), May 13, 2011, p.3.

<sup>25</sup> “Economic Outlook, Indicators, Forecasts,” [Kiplinger.com](http://Kiplinger.com), May 13, 2011, p. 3.

<sup>26</sup> “Economic Outlook, Indicators, Forecasts,” [Kiplinger.com](http://Kiplinger.com), May 13, 2011, p. 3.

<sup>27</sup> [The Kiplinger Letter](http://TheKiplingerLetter.com), Vol. 88, No.10, March 11, 2011, p. 2-3.

Job creation could nurture a rebound in home sales but it will take a few more months of healthy hiring. Another impediment to housing growth is banks' increased caution. In the wake of the financial crisis in 2008, they raised lending requirements such as down payments and credit scores, and erected other hurdles for potential borrowers. This situation is not going to change in 2011. **Tighter lending is canceling out a recent drop in interest rates, with the 30-year fixed-rate mortgage averaging around 4.6%. It is likely to inch up to slightly over 5% by year-end.**

In addition to foreclosures and tighter lending requirements by banks, poor weather this winter in much of the country certainly did not help sales or construction. Housing starts will increase to about 600,000 this year, compared with about 585,000 in 2010. It will be at least 2013 before annual housing starts reach 1 million units. New-home sales will total about 330,000 this year, up from 322,000 in 2010, while sales of existing homes should total about 5.1 million, up from 4.9 million.<sup>29</sup> Mortgage interest rates remain attractive, with a 30-year fixed rate near 5%.<sup>30</sup>

**Retail Sales.** Retail sales look solid, but with consumers spending more on gasoline, there's less buying of other things, such as furniture, electronics, restaurant meals and sporting goods. That shift showed up in April 2011 and will continue as long as gas prices remain elevated -- through the summer, at least.

Retail sales are projected to increase by a bit more than 3% this year, compared with a 2010 gain of over 4% from the dismal 2009 levels. Overall, retail sales in April 2011 rose 0.5% over the previous month. Excluding autos and gasoline, which yields a better picture of the basics, retail sales were up 0.2%.

Value will drive shoppers, who will only splurge for special occasions. They will only pay out more bucks for more expensive products, but only if they are convinced that the extra funds are worth it. In addition, shoppers are less likely to be coaxed into parting with their money before they need to. They will not, for example, buy warm-weather gear until the weather dictates the need for it, even if store displays turn to beachwear months before the chill is out of the air. As a result, retailers can expect to see their biggest sales gains around holidays and changes in the seasons -- a return to a more traditional seasonal pattern now that the recession has put an end to most recreational spending.<sup>31</sup>

Online sales will grow more than four times as fast as overall retail in 2011. E-commerce purchases will be up more than 13%, compared with 3% increase in overall retail sales. That follows a 12% rise in Internet sales in 2010. Growth will slow slightly over five years. However, there will be a 10% jump in online purchases for each year in that period.<sup>32</sup>

**Federal Budget Deficit Damage.** There will be a price paid for the massive federal spending underway. Though President Obama pledged to cut half of the 2010 deficit of \$1.3 trillion by 2013, he has made no serious attempts to do so. The magnitude of the problem is sobering. An estimated \$1.6 trillion federal budget deficit is projected in 2011, according to President Obama's own proposed budget. The national debt will rise to \$15.5 trillion.

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<sup>28</sup> The Kiplinger Letter, Vol. 88, No.10, March 11, 2011, p. 1.

<sup>29</sup> "Economic Outlook, Indicators, Forecasts," Kiplinger.com, April 21, 2011, p. 4.

<sup>30</sup> The Kiplinger Letter, Vol. 88, No.10, March 11, 2011, p. 1.

<sup>31</sup> "Economic Outlook, Indicators, Forecasts," Kiplinger.com, May 12, 2011, p.4.

<sup>32</sup> The Kiplinger Letter, Vol. 88, No.14, April 8, 2011, p.23.

This means that there will be a tremendous debt to be serviced. Uncle Sam already owes a sum that equals 41% of the gross domestic product (GDP). By 2019, the national debt could amount to twice that percentage as expenses for Medicare, Social Security and other programs pile up quickly with the huge bulge of baby boomers retiring. Interest will claim much more of the federal budget. Payments already account for 4.2% of federal outlays. By 2013, they will be about 11% and headed higher.<sup>33</sup>

The Social Security Trust Fund is paying more money in benefits than it is collecting from workers. By 2036, the Social Security Trust Fund will be broke. Medicare's Hospital Insurance Trust Fund reserves are projected to be exhausted in 2024, five years earlier than the federal trustees projected just a year ago. Spending on these two entitlements will grow 50% faster than the economy between 2007 and 2030. Social Security's unfunded liability would raise the public debt by 20% of the Gross National Product (GNP) by 2035.<sup>34</sup>

**Time is running out to attack the deficit. The once-distant problem is now up close. Soaring deficits are jacking up the national debt, resulting in higher interest rates and raising the odds of an even weaker dollar, stunting economic growth and lowering Americans' future standard of living.**



Federal spending is out of control. For years, it averaged 20% of Gross Domestic Product (GDP). This year it is 25% of the GDP. Some of that is due to war spending and efforts to cushion the recession such as unemployment benefits as well as aid to banks, state governments and more, plus diminished tax receipts as the economy shrank. Even as the economy fully recovers, federal spending will not decrease. Growing ranks of retirees mean Medicare and Medicaid costs will keep soaring, even if health care reform successfully curbs increases in the cost of care—something highly unlikely.

<sup>33</sup>The Kiplinger Letter, Vol. 86, No.13, March 26, 2009, p. 3. Also The Kiplinger Letter, Vol. 88, No. 9, March 4, 2011, p. 1.

<sup>34</sup>“Social Security and Medicare Finances Continue to Falter,” Investor’s Business Daily, May 16, 2011., p. A-1.

The mountain of debt will continue to accumulate, even if politicians in Washington manage to rein in spending and trim the yearly deficit. In FY2009, federal public debt rose by a third, to \$7.8 trillion. By 2014, it will equal a whopping two-thirds of the Gross Domestic Product (GDP). Interest payments alone will be staggering, soaring as much as \$800 billion a year by the end of the decade and gobbling up 16% of the total budget. Servicing the debt may become the single biggest item in the federal budget, surpassing Medicare and defense.<sup>35</sup>

Time alone will not wash away the deficit; nor can the United States grow its way to a surplus. An improving economy adds jobs and boosts receipts, but not fast enough to close the revenue-to-cost gap. Quick deep cuts are sure to stunt economic growth.<sup>36</sup>

The United States will reach its borrowing limit any day, but default is not imminent. Treasury Secretary Timothy Geithner has said that the government can pay bills until August 2 without violating the statute or risking financial ruin if the debt ceiling is not raised.<sup>37</sup> If there is no action on the debt limit, there will be no payments made to millions of people including military personnel and Social Security recipients. In addition, there would be no interest payments on the existing national debt. Benefits could be restored quickly, but investor doubt may last for years.<sup>38</sup> With the cost of not acting so high, lawmakers will reach a compromise to avoid default. Republicans will win White House support for some spending cuts. But they will not get President Obama to back big Medicare and Medicaid changes.<sup>39</sup> The new debt ceiling will be at about \$15 trillion, up from the \$14.3 trillion.<sup>40</sup>

The inevitable result will be either higher taxes or less money to spend on everything else the federal government does from food safety to road building, education, health care, energy, the environment, even homeland security and defense. For the President, Congress and other policymakers, there will be a long list of tough choices to be made. In any case, the Federal Government will have to borrow much more to cover its spending. Long-term treasury rates will climb to attract the investors needed. As U.S. households increase savings in a new, more austere economic climate, their 5% of Treasuries will increase. In the 1990s, before the allure of stocks and real estate surged and bond yields fell, households held 20% of U.S. Treasuries. But even if that level were regained, and it is unlikely, it would not be enough to fund the \$4.2 trillion increase in Treasury borrowing coming in the next few years.

Treasury rates will rise several percentage points to keep foreigners lending. There will be no escape from inflation either. All that cash the Federal Reserve is pumping into the ailing economy now will become excess as consumer spending recovers and the slack in the economy is absorbed. This will likely begin to occur in 2011.<sup>41</sup>

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<sup>35</sup>[The Kiplinger Letter](#), Vol. 87, No. 3, January 15, 2010, p. 1.

<sup>36</sup>[The Kiplinger Letter](#), Vol. 88, No. 9, March 4, 2011, p. 1.

<sup>37</sup>[The Kiplinger Letter](#), Vol. 86 No. 13, March 26, 2009 p. 3.

<sup>38</sup>[The Kiplinger Letter](#), Vol. 88 No. 15, April 15, 2011, p. 2.

<sup>39</sup>[The Kiplinger Letter](#), Vol. 86 No. 13, March 26, 2009, p. 3.

<sup>40</sup>[The Kiplinger Letter](#), Vol. 88 No. 15, April 15, 2011, p. 2.

<sup>41</sup>[The Kiplinger Letter](#), Vol. 88, No. 19, May 13, 2011, p. 2.

## **California Economy.**

California began to recover modestly in 2010 from the worst recession since the Great Depression. Economic output and personal income grew in the nation and in California. Job growth resumed once again in California. But these gains and many others like them pale in comparison to the losses incurred during the recession. The recession lasted 18 months, ending officially in June 2009



The principal cause of the recession was a financial crisis instigated by risky financial activity that led to the bursting of the housing bubble. Based on historical experience, economic recoveries following recessions caused by financial crises are slower and more drawn out than those stemming from other causes. This recovery follows that experience.

Although California is more than 18 months into the recovery, many Californians believe that the economic conditions have not improved. By most measures, the California economy was on the mend in 2010. However, the slowdown wrought by the housing implosion and financial crisis was so severe that the pace of economic recovery continues to be discouraging. Unemployment remains high across the country and especially in California. Home building still lags below the pace of construction set before the housing bubble inflated. Similar trends continue in other areas such as industrial production and notably, home, and retail sales.

The nation and California started 2010 mired in an anemic recovery brought about by the nature of the recession that preceded it. The financial balance sheets of many households were still reeling from the financial upheaval and the decline in home values. It is estimated that the financial crisis cost households and non-profit organizations \$11 trillion in assets —nearly a year’s worth of national economic output. The loss of these assets led to financial retrenchment as consumers became thrifter, and households began saving more. While this will have positive effects in the long run, it means less consumer spending now. In turn, this lower level of consumer spending makes businesses cautious. Thus, despite surging profits, corporations have refrained from hiring and have instead opted to increase their cash reserves. Unfortunately, weak employment growth restrains consumption spending.<sup>42</sup>

**The California economy entered 2011 in the midst of a recovery. A sharp rebound does not appear to be likely.** Rebuilding household balance sheets requires restrained consumer spending; and that restraint in turn will provide for only modest job growth for some time.<sup>43</sup> Despite recent positive indications, the return to pre-recession conditions will be slow and steady. Financial crises have historically lead to prolonged readjustment periods that last for years. The steep drop in home values means that a full recovery in residential construction and all associated sectors could be delayed for several years. Likewise, government spending and private sector employment will be lower for the foreseeable future.<sup>44</sup> The University of the Pacific Eberhardt School of Business projects that the recovery could take five years.<sup>45</sup> (Please See Figure 7.)

**Employment. California unemployment peaked at 12.5% in the fourth quarter of 2010.**<sup>46</sup> The state’s unemployment rate decreased to 11.2% in April 2011. California gained 96,500 nonfarm jobs in April

<sup>42</sup> “California Economic Indicators,” California Department of Finance, November-December 2010, p. 5.

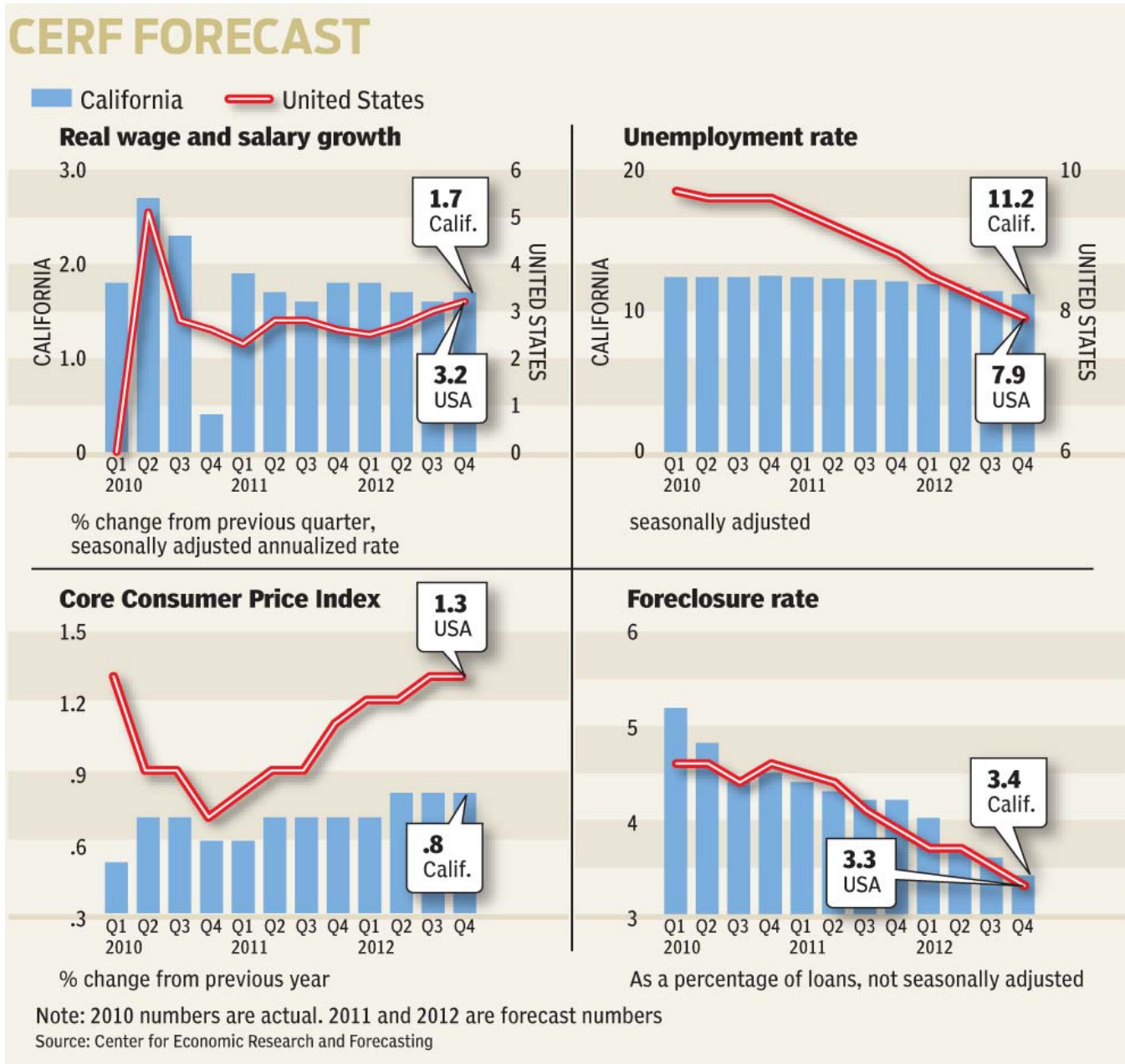
<sup>43</sup> “California Economic Indicators,” California Department of Finance, November-December 2010, p. 5.

<sup>44</sup> Governor’s Budget May Revision 2011-12.

<sup>45</sup> “California and Metro Forecast: April 2011,” University of the Pacific, April 19, 2011, p. 1.

<sup>46</sup> “California and Metro Forecast: April 2011,” University of the Pacific, April 19, 2011, p. 3.

**Figure 7  
California Economic Forecast**



2011—the largest-to-month gain in a record going back to 1990. This was also the fifth in a string of monthly job gains that average 41,600. The job gains were widely spread, with government the only major industry sector to lose jobs. Professional and business services added 39,700 jobs; construction, 15,500; information, 15,500; trade, transportation, and utilities, 9,100; leisure and hospitality, 5,900; other services, 3,800; manufacturing, 3,600; financial activities, 2,500; educational and health services, 2,000; and mining and logging, 100. The public sector lost jobs 1,200 jobs in February 2011.

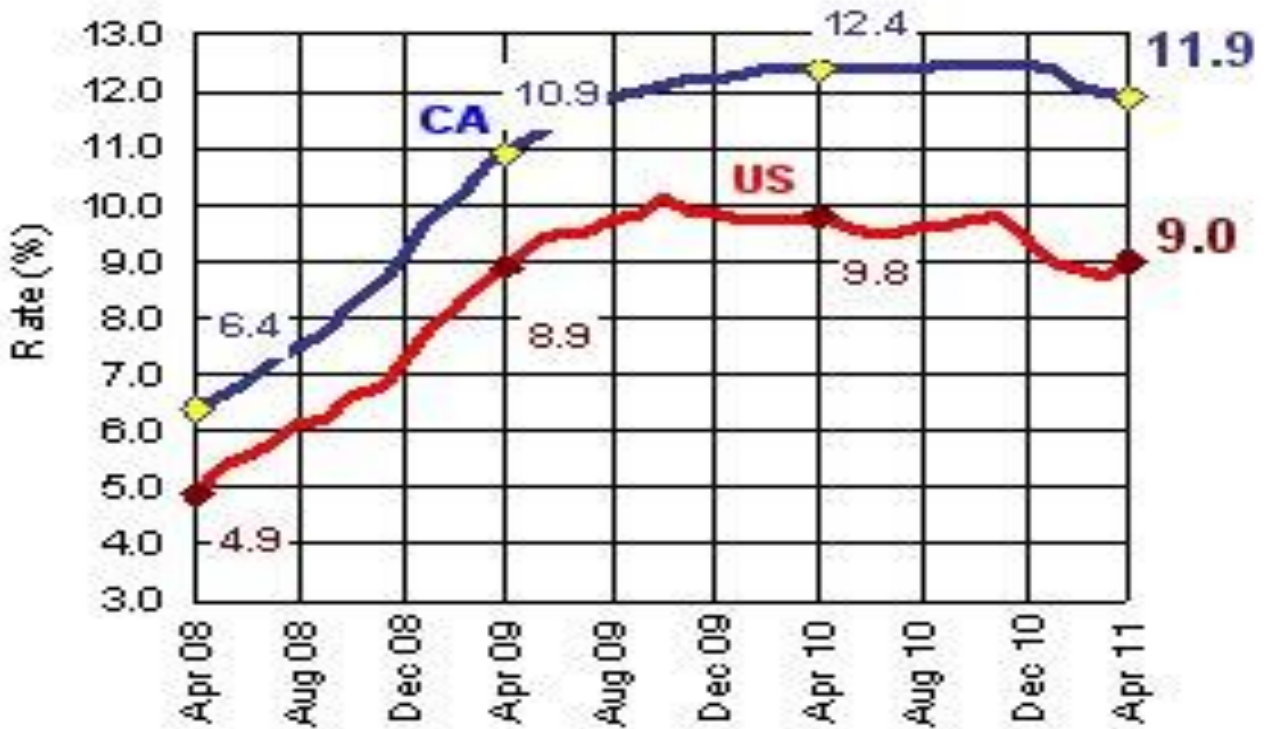
Nonfarm payroll employment rose 196,400 from February 2010 to February 2011—the fifth consecutive annual gain and the strongest growth (1.4 %) since October 2006. Employment rose 100,000 in professional and business services; 49,200 in educational and health services; 38,200 in trade, transportation, and utilities; 32,000

in leisure and hospitality; 24,800 in information; 9,500 in manufacturing; 6,400 in construction; and 1,300 in mining and logging.

Over the year, the public sector accounted for most of the jobs lost. Employment fell by 62,000 in government; 2,500 in other services; and 500 in financial activities. The state’s unemployment rate fell to 12.2% in February 2011—the second consecutive month-over decline and the lowest rate since December 2009. The number of people unemployed in California was 2,202,000—down 44,500 over the month, and down 49,500 compared with February of last year. Total nonfarm employment was still down 1,134,800 from the beginning of the national recession in December 2007.<sup>47</sup>

Payroll jobs bottomed out this summer nearly 1.33 million jobs below their 15.2 million job peak in summer 2007. **California will add 254,000 jobs over the next 12 months, less than one-fifth the total lost during the recession. Jobs will not recover their pre-recession peak until midway through 2015.**<sup>48</sup>

Three-Year Trend in California and U.S. Unemployment Rates  
April 2011; Seasonally Adjusted Data

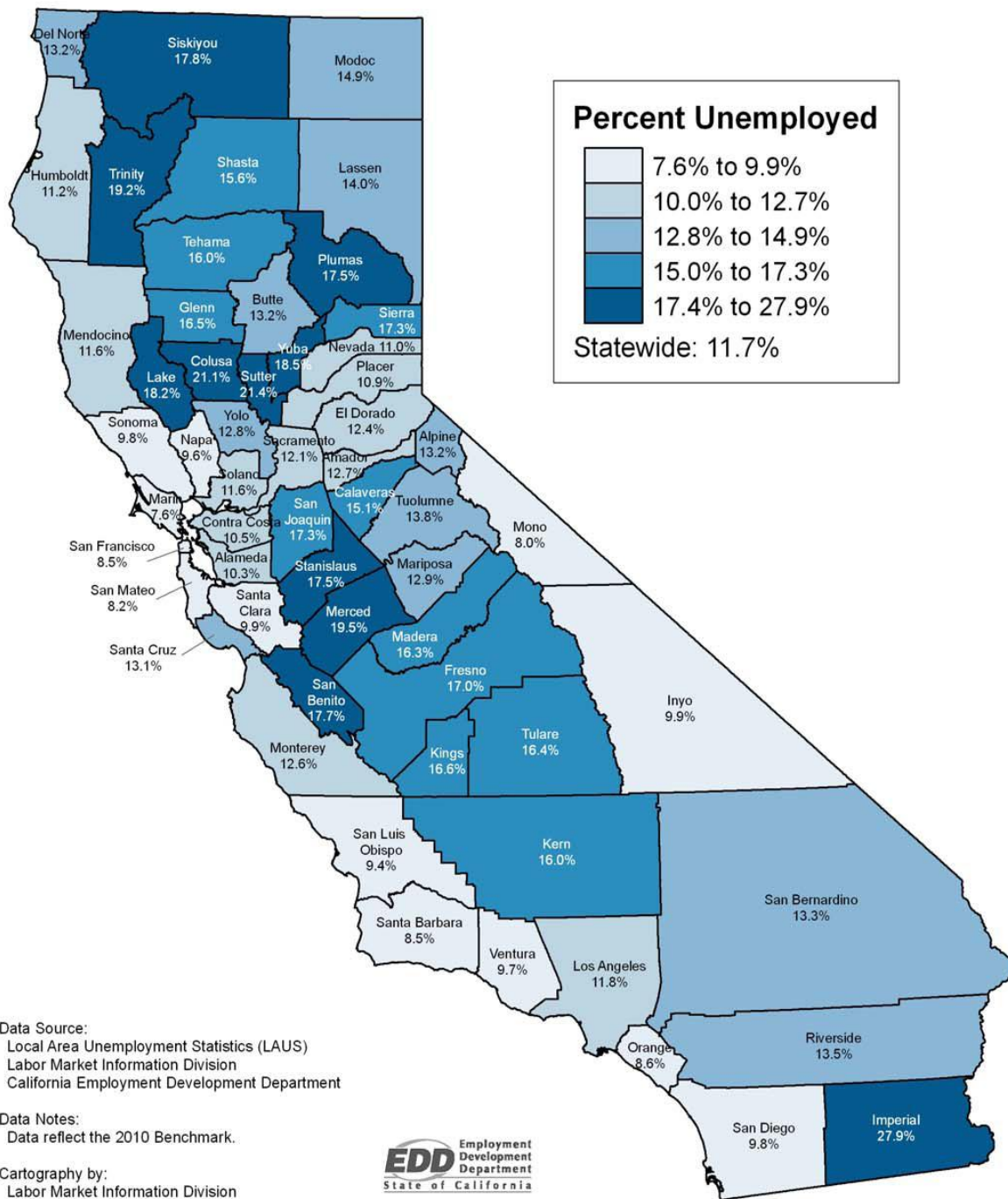


<sup>47</sup> “Finance Bulletin,” California Department of Finance, April 2011, p. 1.

<sup>48</sup> “California and Metro Forecast: April 2011,” University of the Pacific, April 19, 2011, p. 3.

# County Unemployment Rates

April 2011 (Not Seasonally Adjusted)



Data Source:  
 Local Area Unemployment Statistics (LAUS)  
 Labor Market Information Division  
 California Employment Development Department

Data Notes:  
 Data reflect the 2010 Benchmark.

Cartography by:  
 Labor Market Information Division  
 California Employment Development Department  
<http://www.labormarketinfo.edd.ca.gov>  
 May 2011



In the future, California job creation will be sluggish. Its unemployment rate is predicted to be 10.3% next year, substantially above the national average. Job creation, though more rapid in late 2011, 2012 and 2013, will not be fast enough to push the unemployment rate below double digits until the start of 2013.

The drivers of the recovery in California will be education, health care and technology as well as residential construction. The expectation for 2011 is 1.1% growth in employment. The bulk of this growth will occur in the latter part of the year. The end of the year growth will be slightly faster in California than the U.S. as increases in U.S. consumption levels will be magnified in California's logistics industry and increases in exports to the growth economies of Asia will disproportionately affect California. Employment growth is expected to speed up in 2012 and 2013 as the recovery takes hold. Real personal income growth is forecast to be 1.3% in 2011 and 3.7% in 2012 and 4.1% in 2013. The unemployment rate had been stuck between 12% and 13% throughout 2010. Employment growth in 2011 and 2012 will only push unemployment down marginally and it probably will not reach 9.7% until the first quarter of 2013. The unemployment rate is projected to remain elevated at 8.9% through 2013.<sup>49</sup>

Personal income will have modest growth during 2011, followed by low growth in 2012 and 2013. Personal income is projected to grow 3.8% in 2011, 4% in 2012, and 5.1% in 2013. This is a definite improvement from the 2.4% decline suffered in 2009, but weak compared to the 5.1% average annual growth rate achieved from 1989 to 2009.<sup>50</sup>

**Retail Sales.** Spending by consumers increased in California in 2010 after dropping sharply in 2009. Retail sales fell by 12.9% in 2009 but rose by an estimated 6.6% in 2010. Modest increases in retail sales are expected in 2011 and 2012. Many of the state's automotive dealers, who were hard hit during the downturn, also are experiencing moderately better sales, including those selling products by America's three large automotive companies.<sup>51</sup>

**World Trade.** Activity at the state's ports increased dramatically during 2010. Growth will continue through 2011 and 2012. Port workers, truckers, railroads and distribution companies are not the only beneficiaries. California's manufacturers and producers of agricultural products increased export sales as well.<sup>52</sup>

In addition to port activity, imports and exports through California's three customs districts surged in 2010 after plunging in 2009. Exports and imports both increased sharply, reflecting the brisk economic recovery occurring in key Asian markets and the need to refill inventory pipelines in the United States. During the first 11 months of 2010, the value of exports through the state's customs districts soared by 23.5%, while imports grew by 21.9%.

Exports started to improve in late in 2009 and grew strongly through 2010. Demand was boosted by early economic recoveries in the Asian emerging nations led by China. Imports followed suit in early 2010, also increasing by double-digit rates. Rising sales of retailers, distributors and manufacturers—signs of economic recovery in the United States, forced these firms to increase orders from their foreign suppliers. Trade flows

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<sup>49</sup> "National Economy is 'On the Mend' as GDP Growths Steadily and Payroll Employment Increases; In California, Slow Growth Expected Through 2011 as Jobs Slowly Return," UCLA Anderson Forecast, March 2011, p. 1.

<sup>50</sup> "California Economic Indicators," California Department of Finance, November-December 2010, p. 5.

<sup>51</sup> "2011-2012 Economic Forecast and Industry Outlook," Los Angeles County Economic Development Corporation, February 2011, p. 30.

<sup>52</sup> "2011-2012 Economic Forecast and Industry Outlook," Los Angeles County Economic Development Corporation, February 2011, p. 30.

through California will increase further in 2011 and 2012, but at a slower pace, reflecting that most companies supply pipelines have been restocked.<sup>53</sup>



**Housing.** The worst of the housing slump may be over in California. Home building permitting, which suffered a long steady three-year decline starting in 2006, stabilized at a very low level in 2009. Spurred by the on-again/off-again federal home buyers tax credit and, to a lesser extent, by California's first-time buyer tax credit, permitting improved fitfully throughout most of 2010. The issuance of housing permits rose nearly 18% during the first ten months of the year from the same months of 2009. However, the number of permits issued was still down 80% from the peak reached in mid-2005.

Home building fell for a second consecutive month in February 2011 following an end-of-the-year surge to beat the imposition of new building codes that took effect at the beginning of 2011. Despite the weak showing in the first two months of the year, the average pace of permitting during the four months ending with February was up 6% from the same period a year earlier. In February, residential permits were issued at a seasonally adjusted annual rate of 28,652 units, down 39% from a year earlier. Single-family permits were down 33%, while multi-family permitting was down over 48%.<sup>54</sup>

Multi-family housing starts are expected to rebound modestly in 2011, while starts of more economically significant single-family homes remain in a depressed state. Housing starts should top 150,000 units per year by 2015, but include more multi-family housing units than in recent decades.<sup>55</sup>

Real estate markets for existing homes were stuck in neutral in February. Sales of existing, single-family detached homes—497,700 units at a seasonally adjusted annualized rate—dropped 9% from January. The median sales price also dropped 2.8% in February—to \$271,300—and was down 2.5% from a year earlier. The unsold inventory index rose to 7.3 months. The median number of days needed to sell a home lengthened to 64.4 days—the longest median registered since February 2008.<sup>56</sup> However, despite some modest gains in housing, weak real estate markets and constrained home building are significant impediments to a strong recovery. There is some uncertainty about the resilience of the stability achieved during 2010. It is still unclear how much of the improvement seen in 2010 was the result of the temporary boost provided by tax credits. Fears persist of a “shadow supply” of existing homes, including bank-owned properties being held out of the market by lenders and investors. A “shadow supply” could prevent further home price recovery. This, in turn, could lead to depressed home building into the future.<sup>57</sup>

**Agriculture.** It was a better year for agriculture in 2010, with revenues boosted by higher prices and increased exports of California-grown products. However, increased costs remain a concern, especially for fuel, energy and feed. The situation looks better in 2011. Some product prices are rising, and water supplies seem likely to stabilize for the moment. Farm statistics usually take a considerable time to release. However, here is the information most currently available:

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<sup>53</sup> “2011-2012 Economic Forecast and Industry Outlook,” Los Angeles County Economic Development Corporation, February 2011, p. 30.

<sup>54</sup> “Finance Bulletin,” California Department of Finance, April 2011, p. 1.

<sup>55</sup> “California and Metro Forecast: April 2011,” University of the Pacific, April 19, 2011, p. 3.

<sup>56</sup> “Finance Bulletin,” California Department of Finance, April 2011, p. 1.

<sup>57</sup> “California Economic Indicators,” California Department of Finance, November-December 2010, p. 5.

Total gross farm receipts in California declined by 9.6% in 2009, primarily due to plunging prices of dairy products and livestock. However, gross receipts were up by 5.9% in the first 11 months of 2010, most due to higher livestock prices.

Exports of California-grown and bottled-products increased by 18.6% during the first 11 months of 2010 after declining by 4.8% in 2009. 2010 exports could set a new record. In addition, 372,300 workers were employed by California's farms and nurseries, down slightly from the same period in 2009. Assuming the weather cooperates and court mandated water restrictions are not too severe (both rather large assumptions), 2011 could be a better year for California's farmers than 2010. However, feed and fuel costs are rising and cutting into profitability.<sup>58</sup>

Rice planting begins in the Sacramento Valley after a slow start due to cool and wet spring weather, reports the California Farm Bureau Federation. The recent warm weather has allowed fields to dry out and farmers to begin their planting process. Farmers are about seven to 10 days behind where they normally are in early May; however, they are farther along than last year when they started two to three weeks behind schedule. In 2010, rice growers harvested 558,000 acres; the 2011 expectation is 575,000 acres, an 8% increase. This includes 530,000 acres of medium grain, 40,000 acres of short grain, and 5,000 acres of specialty and long grain. Prices for rice should remain at the same level as last year, and farmers are optimistic they will have a profitable crop. California exports about 60% of their rice crop, mostly to Northeast Asia, the Mideast, and Northern Africa.<sup>59</sup>

**Travel and Tourism.** 2010 was a very good year for California's tourism industry after a very difficult 2009. According to Smith Travel Research, the state's hotels reported an average increase in the occupancy rate of 6.1% along with roughly even room rates. This combination caused total hotel room revenues to grow by 7.4% and allow owners to begin to recover some of their 2009 losses. The San Jose/Santa Cruz hotels recorded a 14.8% increase in room revenues in 2010, driven mostly by higher occupancy. Los Angeles increased their revenues by 10.2%. Annual increases in room revenues at other major locations were smaller, ranging from 5.5% in Sacramento to 2.7% in Riverside-San Bernardino Counties.

**Tourism revenues should continue to increase in 2011. The pace of business and leisure travel is quickening. Intrastate travel is also likely to show steady improvement.** In addition, tourist industry operators will attempt to increase fares and room rates despite travelers' efforts to find bargains.<sup>60</sup>

**Water.** Despite December's heavy rains, California's water supply continues to be in short supply, though last year's precipitation turned out to be pretty good overall. However, many areas in the state are still facing restrictions on water use, because water levels in the state's reservoirs fell so far in earlier years. Complicating matters further, environmental rulings have the potential to place at risk not only the state's premier agricultural industry but also urban areas that rely on water traversing the Sacramento-Bay Delta.<sup>61</sup>

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<sup>58</sup> "2011-2012 Economic Forecast and Industry Outlook," Los Angeles County Economic Development Corporation, February 2011, p. 30.

<sup>59</sup>"California Regional Bulletin," California Employment Development Department, May 20, 2011, p. 2.

<sup>60</sup> "2011-2012 Economic Forecast and Industry Outlook," Los Angeles County Economic Development Corporation, February 2011, p.33-34.

<sup>61</sup> "2011-2012 Economic Forecast and Industry Outlook," Los Angeles County Economic Development Corporation, February 2011, p. 29.

**Energy.** **There will be no electricity shortages this summer.** The slow economy has reduced demand. Still the California Energy Commission is encouraging conservation.<sup>62</sup>

Hydrogen and electricity are favored for powering the state's future vehicles in a blueprint released this month by the California Energy Commission. The agency plans to spend \$176 million over the next two years on alternative fuels. About 40 million is to be spent on the effort to install 11 hydrogen stations in California.

Electricity charging stations will also be built with \$46 million for electricity and hybrid cars, trucks and buses. The alternative energy mix also includes fuel vehicles, in which hydrogen is converted to electricity to power motors. Losing out at the California Energy Commission were bio-fuels. The Commission reduced funds for ethanol from \$22 million to \$12 million in its plans. Much of the money will be spent on about 50 E85 stations in the State to be added to two dozen or so existing ones.



**State Growth.** The state's population number 38.7 million persons as of July 1, 2010. That total is expected to swell by 350,000 persons annually. By mid 2012, the state will have 39.5 million residents.

Population growth has slowed since the early 2000s, primarily because the state has experienced negative net domestic migration; i.e., the number of Californians moving out of state is greater than the number of out-of-state residents moving here. Most of the state's population growth comes from natural increase (births minus deaths), with the remainder from international migration.

A growing population benefits the California economy. Growth ensures a firm, underlying demand for housing, furniture and appliances (at least during normal, non-recessionary periods). This demand is not being met now but will boost residential construction and the associated retail sales whenever credit conditions improve and the economic picture brightens.

Growth in the population also supports growth in the state's health care and education sectors. Finally, the enormous size of the consumer market in California represents a huge opportunity for retailers and other consumer-serving industries who find the market simply too big and too attractive to ignore.<sup>63</sup>

### **New State Legislation and Ballot Initiatives.**

State Legislation will continue to play out in the shadow of a State Legislature dominated by Democrats. Liberal lawmakers pushed outgoing Governor Schwarzenegger harder as he was nearing the end of his term as Governor.



**New State Laws.** Over 700 new state laws went into effect after January 1, 2010. Additional state laws have been passed by the State Legislature and signed by Governor Brown since that time. Below are a few of the laws that will impact the residents, businesses and City government of Twentynine Palms:

1. **Insurance Premiums.** AB 119 prevents insurance companies from charging different premiums for men and women for identical coverage.

<sup>62</sup>The Kiplinger California Letter, Vol. 45, No. 10, May 27, 2009, p. 3.

<sup>63</sup> "2011-2012 Economic Forecast and Industry Outlook," Los Angeles County Economic Development Corporation, February 2011, p. 31.

2. **Eviction of Tenants that are Victims of Domestic Violence or Stalking.** Starting July 1, 2011, SB 782 prohibits landlords from evicting tenants that are victims of domestic violence or stalking.
3. **Local Traffic Ordinances.** SB 949 prohibits local government authorities from enforcing a local ordinance on any matter covered by the California Vehicle Code. This law goes into effect on July 1, 2011, and has been enacted to ensure that traffic convictions are recorded by the California Department of Motor Vehicles (DMV).
4. **Renewable Energy Sources for Utilities.** This law increases the amount of electricity that must be generated from renewable sources from 20% by 2020 to 33% by 2020.
5. **Driving Under the Influence (DUI).** This bill (AB 1601) authorizes a court to order a 10-year revocation of the driver's license of a person convicted of a third or subsequent DUI violation, with possible reinstatement after five years if specified conditions are met. This law becomes effective on January 1, 2012.
6. **Sex Offender Penalties.** AB 1844, informally known as Chelsea's Law, will increase penalties, parole provisions and oversight of sex offenders, including a "one-strike, life-without-parole penalty" for some offenders.
7. **New Firefighter Endorsement.** AB 1648 simplifies the proper licensing of firefighters while continuing to ensure public safety. The law exempts operators of fire fighting vehicles from the Commercial Driver License (CDL) program and creates a new license endorsement process.
8. **Traffic Violator School Program.** AB 2499 allows traffic violators to complete a court-approved California Department of Motor Vehicles (DMV) traffic school violator course through home study or on-line. This law will have a three-year implementation process.
9. **Motorcycle Instruction Permit.** AB1952 requires a person under 21-years of age to complete an approved motorcycle safety course before being issued an instruction permit. There are currently more than 6,000 drivers, 19 years and younger, who are licensed to ride a motorcycle in California.
10. **Marijuana Possession.** This bill (SB1449) makes the possession of up to one ounce of marijuana an infraction with a penalty of a \$100 fine.
11. **Vehicle Insurance.** This law (AB 1871) will allow people to lease out their cars when they are not being used—alleviating the need to purchase additional insurance.
12. **Use of Food Stamps.** AB537 makes food stamps an acceptable form of payment at farmers markets through an EBT process. .
13. **Social Media.** This legislation (AB 1411) makes it a misdemeanor to maliciously impersonate someone via a social media outlet or through e-mails. The new law punishes the harming, intimidating, threatening or defrauding of another person online with up to a year in jail and a fine of \$1,000.
14. **Green Building Codes.** AB 715 makes a change to the California Green Building Code standards to require new California buildings to be energy efficient.

15. **Guns.** This new California law (AB 97) makes it harder to get ammunition for guns by requiring stores to keep ammunition behind the counter so sales only occur with face-to-face transactions. The law also requires that buyers provide a thumb print and an ID.
16. **Trans Fats.** This bill (AB97) outlaws oil, shortening or margarine containing artificial trans fats in restaurant food as well as other food including baked goods.
17. **License Plates.** This legislation requires that all license plates will be required to be mounted parallel to the ground so the characters are upright and displayed from left to right.
18. **Post-Foreclosure Protection for Tenants.** SB 1149 requires a notice to terminate a residential tenant who remains after a foreclosure sale must generally include a statutory notice of the tenant's rights. This requirement, which sunsets on January 1, 2013, applies to an immediate successor-in-interest for one year after a foreclosure sale. The tenant's rights must be on a separate cover sheet or, for a 90-day termination, incorporated into the notice to terminate. Another provision of the bill protects a residential tenant's credit by generally prohibiting the court clerk from revealing unlawful determiner court records unless the plaintiff prevails at trial.
19. **No Short Sale Deficiencies.** SB 931 provides that when the seller of a one-to-four unit residential property with only a first deed of trust sells the property as a short sale, the lender cannot come after them for the unpaid balance. It states that by approving the short sale, the lender is deemed to have released the seller from any liability for the unpaid balance. The new law does not apply to loans secured by other types of properties nor does it apply to second or other junior liens against the property. The new law also does not apply if the trustor is in a corporation or a political subdivision of the state. There are two exceptions to this protection. The first is if the trustor commits fraud and the second is if the trustor commits waste. In either of these situations, the laws does not limit the ability to seek damages. The fraud that would remove the protection might have occurred at the time the loan was obtained, but also might be contained in the information provided to the lender to induce them to approve the short sale. Misrepresentations of hardship or concealment of additional offers might be sufficient to open the door to liability of the unpaid loan balance. Waste is a legal concept in which a party acts in a manner which diminishes the value of the property. Examples might be removing or stripping electrical fixtures. Such acts could remove the protections granted by the new law.
20. **Protections Against Real Estate Fraud.** AB 1800 protects consumers from real estate fraud by expanding the foreclosure consultant law to include (1) someone who performs a forensic audit of a residential mortgage loan, (2) requiring any mailed solicitation that offers to provide a copy of an owner's grant deed or their title records for a fee and (3) increasing the criminal punishment for renting out a residential dwelling without the owner's consent to a one year imprisonment, plus a \$2,500 fine.
21. **Energy Audit in Home Inspection Report.** AB 1809 requires that an energy audit be included in a home Inspection Report upon a client's request.
22. **Enforcement of Mortgage Loan Originator (MLO) Requirements.** SB 1137 requires that anyone acting as a mortgage loan originator (MLO) without an MLO license endorsement will be guilty of a crime punishable by six months in jail and a \$20,000 fine. In addition, a broker cannot employ or compensate a real estate licensee for MLO activities unless that licensee has a MLO endorsement. .

- 23. Restriction on Adverse Possession Claims.** AB 1684 states that a claim for adverse possession requires, among other things, certified records of the County Tax Collector showing that all state, county, or municipal taxes have been timely paid for the five-year period the property has been occupied and claimed.
- 24. Proposition 26.** California voters approved Proposition 26 on November 2, 2010 by 52.5%. The law in some limited instances may require new fees, or existing fees that are extended or increased, to be classified as special taxes requiring approval by a two-thirds vote of local voters. The League's Proposition 26 Implementation Guide details how most fees that cities and other local agencies seek to adopt likely fall into one or more of the seven exceptions contained in the law's provisions that are applicable to local government.

In short, Proposition 26 contains these exceptions:

- A. The Special Benefit or Privilege Exception;
- B. The Government Service or Product Exception;
- C. The Licenses and Permits Exception;
- D. The Local Government Property Exception;
- E. The Fines and Penalties Exception;
- F. The Property Development Exception; and
- G. The Prop. 218 Exception.

**Taxes.** Tax law changes will affect most firms in California as the State Legislature struggles to raise more revenue, close the budget deficit gap and promote “green technology.” **Some of the tax law changes enacted in 2009 that Governor Brown wishes to extend for five years include:**

1. **Sales and Use Tax Rate Increased by One percent.** Beginning April 1, 2009 and effective through June 30, 2011, the state sales and use tax rate is increased by 1%. The increase is extended through June 30, 2012, if an amendment to the California Constitution related to certain budget matters is approved in a statewide election.
2. **Vehicle License Fee Increase.** Effective May 19, 2009, the state Vehicle License Fee (VLF) is increased from 0.65% to 1.15%. The increase does not apply to certain truck trailers, semi-trailers, and other commercial vehicles. The VLF rate increase is effective through June 30, 2011, and will be extended to June 30, 2013, if voters approve a Constitutional amendment related to budget matters.
3. **Individual Income Tax Rates Increased by 0.25%.** For tax years beginning on or after January 1, 2009, the individual tax rates are increased by 0.25%. The rate increase applies to resident and non-resident individuals, to taxable estates and trusts, and to regular and alternative minimum tax (AMT) rates.

The rate increase is reduced to 0.125% if California receives at least \$10 billion from the federal government. To qualify, the federal funds must be made available to California by June 30, 2010. The rate increase, whether ultimately 0.25% or 0.125% is effective through December 31, 2010. The increase will be extended through December 31, 2012, if voters approve a Constitutional amendment related to budget matters. S Corporate tax rates (including S corporations) remain unchanged.

4. **Dependent Credit Reduced by \$210 or More Per Dependent.** For tax years beginning on or after January 1, 2009, the dependent credit is reduced to an amount equal to the individual personal exemption credit. Based on 2008 amounts, the 2010 dependent credit will be reduced by \$210 per dependent. This dependent credit reduction will

be extended through December 31, 2012, if voters approve a Constitutional amendment related to budget matters.

5. **Small Business Hiring Tax Credit.** For taxable years beginning on or after January 1, 2009, a credit against individual and corporate income/franchise tax is granted in an amount equal to \$3,000, prorated as provided, for each qualified full-time employee hired during the taxable year by a qualified employer. A “qualified employer” must have 20 or fewer employees on the last day of the preceding tax year, and may only claim a credit on the net increase in “qualified employees” for the current year in comparison to last year. New businesses reflect all qualified employees as net increases. Credits will cease to be granted in the calendar quarter when the total credits claimed on all state returns for all eligible years under this statute cumulatively total \$400 million.
6. **Economic Nexus Defined.** For taxable years beginning on or after January 1, 2011, “doing business” for purposes of whether taxpayers have economic nexus, and are thereby subject to corporate income tax, is redefined to include any of the following.
  - A. Organized commercially domiciled in California.
  - B. In-state sales exceed the lesser of \$500,000 or 25% of total sales.
  - C. In-state real and tangible personal property exceeds the lesser of \$50,000 or 25% of total property.
  - D. In-state payroll exceeds the lesser of \$50,000 or 25% of total payroll.

In-state sales, property, and payroll are determined by application of the corporate apportionment rules, including alternate apportionment rules.

7. **Definition of “Gross Receipts” Codified.** For taxable years beginning on or after January 1, 2011, “gross receipts” for purposes of income tax apportionment is redefined to codify recent court decisions. Gross receipts include all gross amounts realized but, shall not include the following items.
  - A. Repayment/redemption of loans, bonds, etc.
  - B. Amounts received from repurchase agreements.
  - C. Amounts from stock issuance or sale of treasury shares.
  - E. Damages and other amounts resulting from litigation.
  - F. Property acquired by agent on behalf of another.
  - G. Tax refunds and other tax benefit recoveries.
  - H. Pension reversions.
  - I. Contributions to capital.
  - J. Income from discharge of indebtedness.

8. **Elective Single-Sales-Factor Apportionment.** For tax years beginning on or after January 1, 2011, an apportioning trade or business may elect to use a single-sales-factor apportionment formula in lieu of the four-factor formula (property, payroll and double-weighted sales.)
9. **Expanded Sales Factor “Finnigan” Again.** Prior to December 31, 2010, the California Franchise Tax Board treats each corporation in a combined return group as a separate taxpayer for purposes of the sales factor source and throwback rules. For tax years beginning on or after January 1, 2011, the Finnigan rule is adopted. Accordingly, all sales of a combined reporting group are included in the numerator of the sales factor if any member of the combined reporting group is subject to tax in California. Sales shipped or delivered outside California are not included (i.e. “thrown back”) in the sales factor numerator if any member of the combined reporting group is taxable in the state of the purchaser.
10. **Sourcing for Sales of other than Tangible Personal Property.** For tax years beginning on or after January 1, 2011, gross receipts from various revenue-generating activities will be sourced using a “market” or “customer location” sourcing rule. Sales of items other than tangible personal property are sourced as follows.
  - A. Services are in California to the extent the purchaser receives benefits in California.
  - B. Sales from intangible property are sourced to California to the extent the property is used in California.
  - C. Sales from licensing, leasing, or renting real or tangible personal property are in California if the property is located in California.
11. **Motion Picture Tax Credits.** For taxable years beginning on or after January 1, 2011, a credit against individual and corporate income tax is granted in an amount equal to a specified percentage of the qualified expenditures attributable to the production of a qualified motion picture in California. Credits must be certified in advance by the California Film Commission. Credits are granted on a first-come, first-serve basis, and are limited in total. These credits can be assigned to a member of the unitary group, and in some cases, sold to third parties. Elections are available to convert the credits for use against California sales or use tax in lieu of the income tax credit.
12. **Sales Tax Exemption for Alternative and Renewable Energy.** In March 2010, the Legislature passed and the Governor signed SB 71, an urgency bill that took effect immediately. This bill established new sales and use tax exemptions (including the local share) for broadly-defined alternative or renewable energy and advanced transportation technology projects. The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) is responsible for approving tax exemptions.

**New Regulations for 2011 and 2012.** State regulators have been busy issuing new regulations that will impact the City of Twentynine Palms, its economy and its businesses. They include:

1. **Greenhouse Gas (GHG) Emissions.** The California Air Resources Board (CARB) is churning out new rules. Many industries now have to disclose greenhouse gasses including electricity generating facilities, power marketers, electricity retail providers, oil refineries, hydrogen plants, cogeneration facilities, cement plants, food processor,

oil and gas producers, mineral processors and glass container makers.

2. **Cargo Ship Fuel Regulations.** The California Air Resources Board (CARB) has issued new regulations that require all ocean-going vessels within 24 nautical miles of the California coastline to use a cleaner-burning diesel fuel, called lower-sulfur marine distillates, rather than heavy-fuel oil.
3. **Diesel Trucks and Buses.** The California Air Resources Board (CARB) is requiring hundreds of thousands of vehicles to install needed retrofits or they must be replaced in the next few years to capture pollutants discharged into the air. Affected are on-road heavy-duty diesel trucks weighing more than 14,000 pounds, yard trucks with off-road certified engines and all diesel-fueled shuttle vehicles. The rules even include out-of-state trucks and buses that operate in California. Trucks in big fleets must filter out soot by 2011 and nitrogen oxide by 2013. Smaller fleets of one to three vehicles must start meeting standards by 2013. Vehicles operating fewer than 1,000 miles and under 100 hours per year are exempt.
4. **Wood Products.** Less formaldehyde will be allowed in composite products such as particleboard. Fabricators, importers, distributors and retailers have between 12 and 18 months to dispose of inventories, depending on the product.<sup>64</sup>
5. **Green Building Codes.** The California Building Standards Commission has adopted the California Green Building Standards (Cal Green) Code. This new building code went into effect on January 1, 2011.
6. **California Cap and Trade Regulations.** The California Air Resources Board (CARB) adopted Cap and Trade Regulations under the authority of the 2006 Assembly Bill 32 (Global Warming Solutions Act) on December 17, 2010. The market will start on January 1, 2012. Between now and then, CARB will be building the market structure and finalizing details to implement the regulations. The Board also adopted a series of resolutions for additional work that needs to be done to implement the cap and trade system. One board member described the list as “longer than Santa’s list.” The Board has decided to conduct a progress review by July 31, 2011 on the progress being made on implementation issues, including the status of the Western Climate Initiative, estimates of expected offset supplies, a schedule for training covered entities, and finalization of the allowance allocation system. There will also be more work on the emissions intensity and trade exposures of different industries prior to the start of the program. CARB believes that it has legal authority to conduct an auction under the program, but does not have authority to direct expenditure of the monies. CARB resolved to deposit 10 % of the auction revenues into the Air Pollution Control Fund for appropriation by the legislature on programs for green house gas (GHG) reductions and green collar employment in disadvantaged communities.

#### **November 2006 Ballot Measures Affecting City Governments in California During FY2012.**

1. **Proposition 1B Transportation Infrastructure Bond.** Proposition 1B is part of the \$43 billion bond package to address critical infrastructure improvement and repairs. In 2000, the California Transportation Commission (CTC) stated that it had more than \$116 billion in unfunded transportation projects in the State of California<sup>65</sup>

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<sup>64</sup>The Kiplinger California Letter, Vol. 44, No. 24, December 31, 2008, p. 4.

<sup>65</sup> Quoted in “Grassroots Network: Building a Better League,” by Maria Alegria, Western City, February 2007, p. 33.

Proposition 1B creates 14 transportation related programs. Funds for most of them must now be appropriated by the State Legislature. While many of the funds are self-executing, with money being added to existing programs in accordance with existing formulas, Proposition 1B has some significant additional benefits for city governments. This includes \$1 billion for cities and counties that is allocated to each city for projects to improve the local street and road system. **The City of Twentynine Palms received \$369,131 in FY2010 and will receive \$220,000 in FY2012 in Proposition 1B funding.**

Unlike Proposition 42 funding, which is dedicated exclusively to street maintenance and repair projects, cities may determine their own priorities for use of these transportation funds, including traffic congestion relief, traffic safety, transit, storm drainage, maintenance, construction and other projects to improve the local street and road system. Proposition 1B also includes:

- A. \$4.5 billion to fund performance improvements on highly congested state highways and major access routes to the state highway system. The California Transportation Commission (CTC) adopted guidelines for this program in November 2006.
- B. \$2 billion to augment the State Transportation Improvement Program (STIP). Cities are encouraged to work with their regional transportation agencies to communicate their local priorities.
- C. \$4 billion for improvements to intercity rail and other transit-related projects and improvements that will be allocated per existing formulas. The allocation schedule for these funds has not yet been determined, but does require legislation.
- D. \$125 million for seismic work on local bridges, ramps and overpasses. Cities are encouraged to work with Caltrans to access these funds, which will be used for the required 11.5 % match for Federal Highway Bridge Replacement and Repair funds for seismic work on local bridges, ramps and overpasses.
- E. \$250 million for completion of high priority grade separation and railroad crossing safety improvements. This is significant because currently only \$15 million is available each year to fund high priority grade separation projects. \$150 million of this fund will be allocated in accordance with current statute, except that a dollar-for-dollar match of non-state funds is required. The California Transportation Commission (CTC) will also allocate \$100 million in consultation with the High-Speed Rail Authority.

The bond also includes funds for infrastructure improvements to seaports, land ports of entry and airports to relieve traffic congestion along major trade corridors, improve freight rail facilities, and enhance the movement of goods from port to marketplace. Program guidelines have not been determined. The California Transportation Commission (CTC) has held listening sessions with stakeholders around the state to determine how this program is going to work. To date, a consistent vision has not been established. Legislation to establish the program is likely to further define the program.<sup>66</sup>

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<sup>66</sup>“Infrastructure Bonds are a Positive Investment for California, but Long-Term Needs Require Additional Resources,” by Lisa Lawson Stark, *Western City*, February 2007, p. 21.

**Governor Brown proposed funding Proposition 1B bond projects in his FY2012 May Revised Budget. He has asked the State Legislature to increase funding for state road projects from \$2.3 billion to \$3.3 billion. However, at the same time he has proposed funding for local projects be decreased \$35.5 million for state-local partnership programs and \$8.2 million for local bridge seismic safety due to fewer local projects ready to start. These increases and decreases are in line with the Governor's goal to fund ready-to-go projects rather than sell bonds for future projects.**

**2. Proposition 1C Housing Bond.** Proposition 1C provides funds for housing programs throughout the State of California. Approximately half of the bond monies (\$1.375 billion) will fund existing programs offered by the California Department of Housing and Community Development (HCD) and the California Housing Finance Agency. Approximately half of this funding (\$750 million) goes to specific affordability programs like the Multi-family Housing Program, the Joe Serna Jr. Farm Worker Housing Program, and the Emergency Housing and Assistance Fund. Another \$625 million was allocated to homeownership programs like the Self-Help Housing Fund and the Building Equity and Growth in Neighborhoods (BEGIN) program.

How the remaining funds will be allocated, however, is less clear. By far the largest pot of money is the \$850 million to fund infrastructure related to infill development. There is also an additional \$200 million for urban parks and \$300 million for transit-oriented development. Of these three funds, the distribution of the transit-oriented development fund has the most developed criteria. Another \$100 million is for an Innovation Fund, but requires the Legislature to define the criteria for being innovative by a two-thirds vote of each legislative body.

**The proposed FY2012 May Revised State Budget includes additional allocations of Proposition 1C funding including \$25 million for the Housing, Urban, Suburban and Rural Parks Program; \$18 million for the Transit-Oriented Development Program; and \$20 million for the Building Equity and Growth in Neighborhoods (BEGIN) Program.**

**3. Proposition 84 Water Quality and Supply, Flood Control and River and Coastal Protection Bond.** Proposition 84 provides \$5.4 billion in funding for safe drinking water projects and programs, flood control and environmental protection. Among the items funded are \$240 million for flood control, in addition to the \$4.1 billion for flood control included in Proposition 1E. Another \$450 million is allocated for wildlife and forest conservation.

Proposition 84 also includes funds for local and regional parks and \$580 million will be available for improving the sustainability and livability of California's communities through investment in natural resources including:

- A. \$90 million for urban water and conservation programs. This includes greening projects that reduce energy consumption, conserve water, improve air and water quality, and provide other community benefits. Implementation legislation is needed and should provide for planning grants for urban greening projects.
- B. \$400 million for grants for local and regional parks. Funds may be allocated to existing programs or pursuant to legislation. The following conditions must be applied to any legislation:
  - (1) Acquisition and development of new parks and expansion of overused parks that provide park and recreation access to under-served communities.
  - (2) Creation of parks in neighborhoods where none currently exist.

- (3) Outreach and technical assistance to underserved communities to encourage full participation in the program or programs.
  - (4) Preference to applicants that actively involve community-based groups in the selection and planning of projects.
  - (5) Projects designed to provide efficient use of water and natural resources.
- C. \$90 million for incentive grants for local planning. These grants and incentives include revolving loan programs to encourage the development of regional and local land use plans designed to promote water conservation, reduce automobile use, cut fuel consumption, encourage infill and compact development, protect natural resources and agricultural lands, and revitalize urban and community centers.

**Future Ballot Initiatives Currently Being Circulated or Qualified.** Groups are gearing up to put initiatives on the ballot for 2011 and 2012 general and primary elections. Likely ballot initiatives that could affect cities directly or indirectly include the following:

1. **Limits on Legislators' Terms in Office.** This initiative reduces the total amount of time a person may serve in the state legislature from 14 years to 12 years. It also allows a person to serve a total of 12 years in the Assembly, the Senate, or a combination of both. The ballot measure only applies to legislators first elected after the measure is passed and provides that legislators elected before the measure is passed continue to be subject to existing term limits. This initiative State Constitutional Amendment will be on the February 2012 ballot.
2. **Additional Tax on Cigarettes for Cancer Research and Local Revenues.** This ballot measure imposes additional five cent tax on each cigarette distributed (\$1.00 per pack), and an equivalent tax increase on other tobacco products, to fund cancer research and other specified purposes. The ballot measure requires tax revenues be deposited into a special fund to finance research and research facilities focused on detecting, preventing, treating, and curing cancer, heart disease, emphysema, and other tobacco-related diseases. This ballot initiative also creates a nine-member committee charged with administering the fund. The Legislative Analyst Office (LAO) and Director of Finance (DOF) feel that the fiscal impact will be approximately \$855 million in annual cigarette tax revenue by 2012, declining slightly annually thereafter. There will also be an increase of about \$45 million annually to existing health, natural resources, and research programs funded by existing tobacco taxes. **In addition, there will also be an increase in state and local sales taxes of about \$32 million annually.** This measure will be on the ballot in February 2012.
3. **Prohibits Political Contributions by Payroll Deductions.** This ballot measure restricts union political fundraising by prohibiting use of payroll-deducted funds for political purposes. The same restrictions would also apply to corporations, and government contractors. Employees belonging to unions would be allowed to make voluntary contributions to employer or union committees if they authorize them each year. The ballot measure also prohibits unions and corporations from contributing directly or indirectly to candidates and candidate-controlled committees. Other political expenditures remain unrestricted, including corporate expenditures from available resources not limited by payroll deduction prohibition. This ballot measure also limits government contractor contributions to elected officers or officer-controlled committees. The Legislative Analyst Office (LAO) and the Director of Finance (DOF) estimate that enforcement could "cost hundreds of thousands

of dollars annually.” Some costs might be offset by fines. This ballot measure could affect cities with unionized work forces.

4. **Requires Secret Ballot for Employees Seeking Labor Representation.** This ballot measure would amend the state Constitution to eliminate employees’ option to designate union representation by proving majority support to their employer and would require formal secret ballot election for any designation of labor representation. The Initiative also restates existing Constitutional guarantee of vote by secret ballot in elections for public office and upon an initiative or referendum. It adds that a secret ballot is a fundamental right. This ballot measure could affect efforts to organize collective bargaining units in non-union cities.
5. **Revenue Source Required for Any Statute or Initiative Affecting State Budget.** This ballot measure requires that any statute, state budget, or legislative constitutional change that decreases state revenues or increases state program or agency costs by \$25 million or more in a fiscal year must include offsetting revenues or spending cuts. It also establishes a two-year budget cycle, with five-year fiscal projections. The initiative would also permit the Governor to cut the budget midyear when a fiscal crisis has been declared and Legislature fails to act. It also requires the budget bill to be printed three days before adoption and requires state programs to undergo program performance reviews. The Legislative Analyst Office (LAO) and Director of Finance (DOF) state that there would be costs of unknown proportion to administer the statute. State and local governments could be affected by state budgetary decisions.
6. **Nuclear Power Initiative.** This ballot measure extends statutory preconditions, currently applicable to new operation of any nuclear power plant, to the existing Diablo Canyon and San Onofre plants. Before further electricity production can continue at these plants, the California Energy Commission must find that the federal government has approved technology for permanent disposal of high-level nuclear waste. The California Energy Commission must also find that the federal government has approved technology for the reprocessing of fuel rods. Both findings are subject to Legislature's rejection. The Legislative Analyst Office (LAO) and Director of Finance (DOF) feel that there will be a major impact on finances of state and local government including decreased revenues and increased costs of billions of dollars annually due to disruptions of the state’s electrical system and increases in the price of electricity. In addition, the state may have to compensate the utilities for investment losses resulting from mandated shutdown of their nuclear power plants. There could be avoidance of future state and local government costs and lost revenues resulting from the unlikely event of a major nuclear plant incident.
7. **Tax on California Oil.** This ballot initiative would impose a 15% tax on the value of each barrel of oil extracted in California. It would also allocate oil tax revenue to non-capital education funding that includes 30% to K-12, 48% to community colleges, 11% to the California State University System and 11% to the University of California system. The measure prohibits producers from passing the tax on to refiners, gasoline stations, or consumers. It prohibits loans of oil tax revenues to the General Fund and prohibits reduction of regular education funding based on additional revenues from tax. The Legislative analyst and Director of Finance (DOF) feel that the state would see an increase in revenues of \$2 billion to \$3 billion per year, dedicated to education.
8. **State and Local Spending Limitation.** This ballot measure changes how the state spending limit is calculated and places a total limit on spending. It reduces the annual cost-of-living adjustment to the spending limit and allocates excess state revenue to repayment of bonds and the closing of the education funding gap. The measure establishes a new reserve account and a new school fund and roadway construction fund. This ballot measure caps the sale of

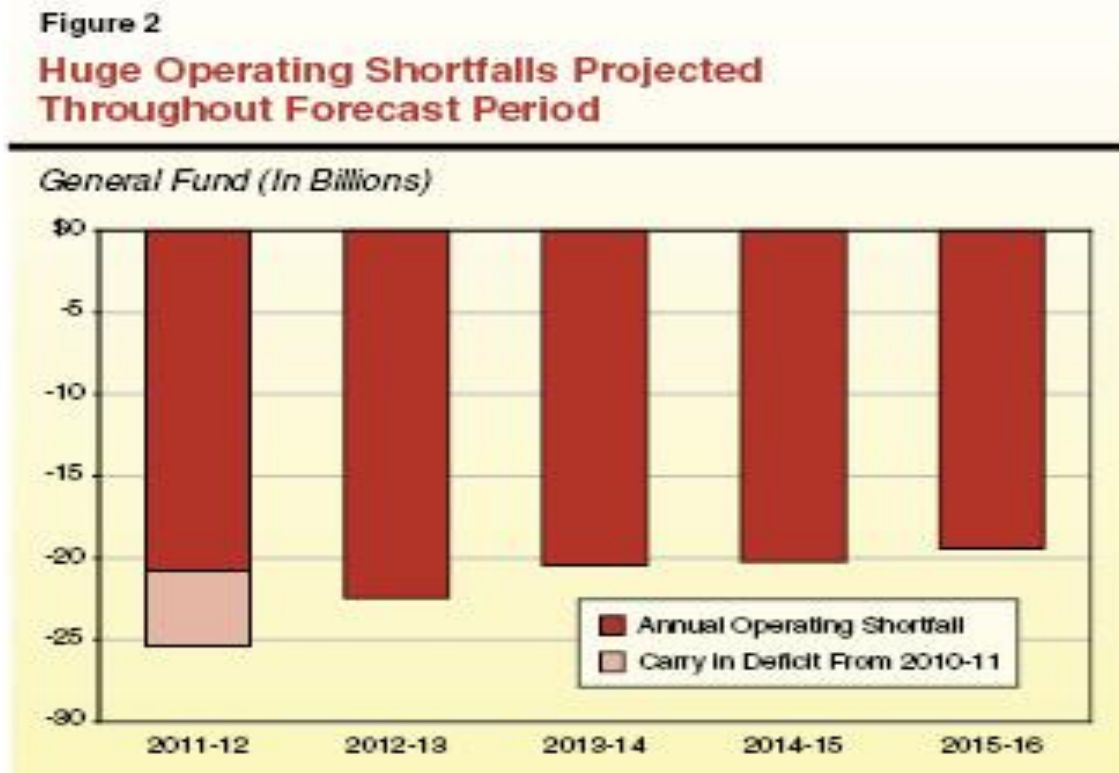
certain state bonds and allows the state to spread out mandated payments to cities, counties and special districts. It suspends protections for local government retirees if unfunded by state and prohibits local government expenditures from exceeding revenues. The Legislative Analyst Office (LAO) and the Director of the Department of Finance (DOF) state that the revised spending limit would constrain state spending below levels that otherwise would have occurred. In addition, over time the percentage of the state budget devoted to education expenses likely would increase, and the percentage devoted to most other areas likely would decrease. The measure would also probably increase the level of state resources going to state reserves, payment of certain debts, infrastructure spending and tax rebates. There would also be a possible reduction in the amount of new bond debt that could be sold to fund infrastructure projects.

9. **Public Pension Benefits Modification and Elimination of Authority to Set Public Employee Retirement Benefits by Contract or Collective Bargaining.** This ballot measure sets the retirement age at 62 for persons who are or will be public employees. It limits pensions to 60 % of the employee's highest average base wage for three consecutive years and requires employees to match public agency pension contributions. The measure mandates public employees work fulltime for five consecutive years to receive pension and provides public agency with full discretion to modify pensions and prevents pension changes through contract or collective bargaining. The ballot measure retains current pension benefits for legislators and public employees retiring before the initiative is effective.
10. **Federal Constitutional Convention.** This ballot measure finds that California's environmental and other public benefit laws have been effectively nullified by the federal government. It directs the California Legislature to request that Congress call a federal constitutional convention to propose amendments to the United States Constitution. The ballot measure also requires California's delegate to the convention to be determined by general election after televised public debate. The Legislative Analyst Office (LAO) and Director of the Department of Finance (DOF) finds that there is no direct fiscal impact, as any effect would depend on the decisions of other states, members of the constitutional convention, and future federal and state elected officials.
11. **Election Day Holiday.** This ballot measure establishes an election day state holiday as the Tuesday following the first Monday in November during even-numbered years. The Legislative Analyst and the Director of the Department of Finance estimate the cost to the State of California to be less than \$20 million every two years.
12. **Presidential Electors Nominated by Political Parties and Election by Congressional District.** This ballot measure requires California to join two other states in selecting electors for president by plurality vote in each congressional district. Two at-large electors will be selected based on plurality of statewide vote for president. It provides for political party nomination of electors pledged to vote for that party's candidate. Mandates that electors vote for candidate for whom they are pledged. Independent electors will be chosen by independent presidential candidates and also elected by congressional district. The new law would eliminate \$10 compensation and five cents per mile reimbursement for electors. The Legislative Analyst Office (LAO) and Director of Finance (DOF) estimate that there would be a reduction of less than \$10,000 in state costs every four years.

## State of California Budget Crisis.

Despite increases in State revenues, the state budget crisis continues. State General Fund revenues increased by 10% during the first six months of FY2011 (which ends June 30, 2011), primarily due to higher personal income tax and sales tax revenues. At the same time, General Fund expenditures only increased by 5.2%. While below the officially budgeted amount, the California Department of Finance (DOF) expects the state to run a deficit of approximately \$8.2 billion in FY2011.

The Governor estimates the State General Fund will run another deficit of \$17.2 billion during FY2012 and will continue to run deficits far into the future as indicated in the chart above.<sup>67</sup> The State Legislature and the Governor must agree on how to deal with both years' shortfalls. This deficit is driven by auto pilot state spending governed by formulas enshrined into law and cost-of-living increases governed by State statutes. Additional state spending has been caused by new state laws and the spending spree in recent years by Governor Davis, Governor Schwarzenegger and the State Legislature. Between 1998 and 2007—before the recession hit California—revenues increased an average of 64% per year, while spending increased an average of 77%. The recession only exacerbated this fiscal trend.<sup>68</sup>



Despite Gov. Arnold Schwarzenegger's promises to reduce California's indebtedness, the state's debt has nearly tripled during the seven years he has been governor. It has been seven years since the 2003 recall election, and so it is an appropriate time to review how a central pledge in his unlikely race for governor has turned out. As of July 1, 2003, California had a total of \$27.6 billion in general obligation bonds and a total of \$23.2 billion

<sup>67</sup> "2011-2012 Economic Forecast and Industry Outlook," Los Angeles County Economic Development Corporation, February 2011, p. 29..

<sup>68</sup> "Budget Solution Hard Task for California Policymakers," Alert, California Chamber of Commerce, Vol. 35, No. 19, June 12, 2009, p. 1.

in authorized but unissued bonds, according to then-State Treasurer Phil Angelides. But according to the latest report from current State Treasurer Bill Lockyear, California's State debt is now \$77.8 billion in outstanding General Obligations (GO) bonds—nearly triple the amount of seven years ago—and an additional \$42.8 billion in authorized but unissued bonds.

General obligation (GO) bonds must be paid from revenues coming from the State's General Fund, meaning that debt payments reduce funds available for other services. In fact, along with its overall debt burden, California's debt payments have tripled, from \$1.8 billion paid in the fiscal year ending June 30, 2004, to a staggering \$5.5 billion in the current fiscal year ending June 30, 2011.<sup>69</sup>

**How bad is the State's debt situation? On May 11, 2010, California was in the top ten for highest government default probabilities in the world, just below Latvia and ahead of Sicily, and had a 20% probability of defaulting. The spread on California Credit Default Swaps (CDS) was 254. CDSs are a form of semi-insurance used by deep pocket speculators and hedgers to essentially make bets on the probability of an organization defaulting. A score of 254 means that someone buying \$10 million of default protection on California debt for five years would have to pay \$254,000.**

State budgets in the past have relied on billions of dollars in assumptions that never came true, including cuts that have been blocked by the courts. Even FY2009's temporary tax increases were not enough to put California on firm fiscal footing. The national recession continued to batter the State's economy of the nation's most populous State, which has been wracked by home foreclosures and job losses across almost all sectors of the economy.



While Democrats control both houses of the State Legislature, Republican support is needed for any budget solution because of the two-thirds vote threshold required to pass a budget and increase taxes. Schwarzenegger and the Legislature approved one of the largest tax increases in State history two years ago, raising personal income tax, sales taxes as well as vehicle license fees. Republican legislators say that such a solution is off the table this year. All tax increases passed in FY2009 are set to expire in June 2011.

<sup>69</sup> "California Debt Levels Soar Under Schwarzenegger," *California Watch*, October 7, 2010, p. 1.

## **Governor Brown's May Revised Budget.**

On May 16, 2011, Governor Brown released his May Revision to his proposed FY2012 State Budget. The May Revision updates policy proposals, revenue projections, and estimated expenditures for both the current and upcoming budget years. The May Revision assumes a "remaining problem" of \$9.6 billion and that revenues will be \$6.6 billion above the level forecast in January and outlines \$10.8 billion in "solutions" to close the gap remaining after enactment of \$11.0 billion in "solutions" in the March budget agreement and provide a \$1.2 billion reserve. The May Revision also notes that after implementation of the March budget agreement, but prior to the enactment of additional revenues or expenditure cuts, the state faces deficits of approximately \$10 billion for the foreseeable future and notes that the state faces a significant debt from borrowing used to balance the budget in prior years.

Significant policy proposals contained in the May Revision include the elimination of 43 state departments, boards, and commissions and elimination of 5,500 positions from the state's workforce. The May Revision reflects cuts already adopted or assumed by the Legislature as part of the March budget agreement in many areas, such as human services and higher education. In other areas, most notably the elimination of redevelopment agencies, the May Revision continues to assume savings outlined in the Governor's January Budget that still must be enacted by the Legislature. The following provides an overview of some of the key provisions of the proposed FY2012 state budget that affect cities in the State of California.<sup>70</sup>

**Tax Extensions Still Proposed, But Modified.** The Governor's May Revision Budget proposes \$10.8 billion in solutions to balance the budget and achieve a \$1.2 billion state reserve. This is an improvement from earlier this year when the state faced a projected \$26.6 billion deficit.

**The Governor maintained, but modified slightly, his proposal to extend taxes, despite a projected increase of \$6.6 billion in additional revenue from a recovering economy. He continued to propose a five-year extension to the temporary 1% state sales and use tax rate, and the temporary 0.50% increase in Vehicle License Fees (VLF). In January, the Governor proposed to continue the 0.25% temporary surcharge on income tax for five years. He is now proposing to reduce the surcharge term from five years to four years and delay its start until 2012.**

Tax extensions are necessary, according to the Governor, to avoid making additional cuts and eliminate an ongoing structural deficit. This deficit includes a "wall of debt" accumulated from past deferrals and budget gimmicks. Gov. Brown also continues to insist that the state's voters ratify any legislative approved tax extensions in the fall.

**Enterprise Zones Reformed, But Not Eliminated.** The Governor's initial proposal to eliminate enterprise zones has been shifted to a focus on reform. Proposed reforms include the redefining of the tax credits to apply only to firms that have increased their total employment. It also proposes to eliminate "retro-vouchering," which allows firms to collect tax credits regardless of whether the credits played a part in their hiring decisions.

**Redevelopment Proposal Remains Unchanged.** Despite the April 28 Legislative Counsel Bureau's opinion that the Governor's redevelopment proposal violates the State Constitution, there have been no changes to his proposal to eliminate redevelopment agencies and shift \$1.7 billion for state General Fund purposes.



<sup>70</sup> California Budget Project, Revised May 20, 2011.

The California Redevelopment Association (CRA) has developed two alternative redevelopment proposals that are supported by the League including:



1. **Voluntary State Budget Assistance.** Redevelopment agencies would be granted extensions of their project life-spans in exchange for voluntarily contributing to local schools. This win-win proposal could generate approximately \$1 billion for the budget with more ongoing.
2. **Redevelopment Reform.** The League and the California Redevelopment Association (CRA) have worked with Sen. Roderick Wright (D-Los Angeles) on SB 286, a comprehensive redevelopment reform package. The measure will significantly enhance accountability of redevelopment, limit redevelopment's footprint, and focus redevelopment on key priorities like job-creation, crime reduction, revitalization of rundown and blighted neighborhoods, and toxic cleanup and affordable housing. Given its comprehensive nature, the measure remains a "work in progress" and additional amendments will be added to the bill to clarify and resolve specific concerns raised by cities and other parties.

Together these two credible proposals provide responsible and viable alternatives for Legislators to consider when responding to the Governor's elimination proposal.

**Corrections and Local Law Enforcement Grants.** The May Revise reflects adjustments to funding sources or removing programs not deemed to be appropriate under the realignment title because they may complicate the state-county relationship - the stated common thread determining which programs remain under state responsibility.

The realignment of corrections and rehabilitation and treatment services to counties still relies on the temporary tax extension of sales tax and the VLF through 2015. While the VLF share for the broadly defined "public safety" programs was reduced from 0.5% to 0.4%, that reduction of funding is due to reduced health and human services or swaps between county and school operations.

Local law enforcement grants, including Citizens' Options for Public Safety (COPS) programs and booking fee subventions would be funded through VLF extension, at \$504.4 million for the next four years. While the May Revise adds \$2 million to this category of funding, the additional monies represent separate local assistance programs under California Emergency Management Agency (CalEMA) and Department of Justice that were previously planned to receive realignment monies.

An additional \$44.6 million will be allocated to public defenders and district attorneys to reflect their increased duties related to parole revocation hearings. The monies will also help provide in-custody offender rehabilitation programs for those currently in jail. This small population segment was unintentionally left out of original realignment equations.

Law enforcement mandates will be funded from the General Fund, including \$40.5 million in state penalty subventions and \$50.9 million for mandate reimbursement. These monies include \$21 million for peace officer training under the Commission on Peace Officer Standards and Training (POST) and law enforcement mandates related domestic violence arrest policies, victim assistance and treatment, and child abduction recovery services. These were originally part of the realignment plan, but the reimbursement mechanism varied too greatly for different local agencies and complicated the realignment issue.

**Realignment Funding.** The Governor is holding tight to realignment plans moving forward July 1 and pursuing State Constitutional Amendment (SCA) 1 x 1 as the funding mechanism for realignment and local law enforcement grants. The May Revise bluntly states that without the tax extensions to fund realignment, additional cuts will be necessary to achieve a fiscally sound budget. This includes other aspects of public safety that would be affected, including the inability for the state to supervise non-serious, non-violent parolees or return parole

violators to jail unless they commit a new crime. The Governor and his staff remain focused on the current May Revise and are not discussing "Plan B" should the tax extensions fail to earn support from legislators or the voters.

**Fire Service.** Plans for the realignment of local fire service have been dropped entirely. The Governor no longer proposes to shift appropriations for existing contracts from the state general fund dollars to realignment monies because only three of the six local agencies are counties, making the fire service realignment inconsistent with the general realignment model. The Cal FIRE engine staffing reduction proposal is maintained in the May Revised Budget. Staffing will be reduced from four firefighters on an engine to three in FY2012.

**Environment.** The May Revise reflects \$33 million in cuts to state parks signed by the Governor in March. The Administration recently released a list of 70 state parks slated for closure due to these cuts. The Governor proposed no additional changes to the March budget reductions that shifted \$12.8 million from the General Fund to fee based funding. With the March budget reductions and changes, future Basin Plans developed by the state's nine regional water quality control boards will be funded through Waste Discharge Permit Fee revenues.

**Transportation.** The Governor's January FY2012 budget proposal shifted \$7.2 million in costs to local agencies for developing CalTrans Project Initiation Documents (PID) for local projects. The May Revise changes the proposal to allow for reimbursement for work if CalTrans completes the PID, rather than upfront fees.

The proposed allocation for capital funding of Proposition 1B bond projects is increased from \$2.3 billion to \$3.3 billion. Funding for local projects, however, is decreased (\$35.5 million for state-local partnership programs and \$8.2 million for local bridge seismic safety) due to fewer local projects ready to start. These increases and decreases are in line with the Governor's goal to fund ready-to-go projects rather than sell bonds for future projects.

**Ralph M. Brown Act (Brown Act) Mandate Reimbursement.** The Governor proposes to suspend Brown Act mandate reimbursements. This has already been approved by the Legislature and is pending action by the Governor.

**Reducing State Government.** The Governor proposes to eliminate a number of state boards and agencies to reduce the overall size of state government. Eliminations of potential interest to cities include the State Mining and Geology Board, State Office of Gang and Youth Violence Prevention, Commission on the Status of Women, Governor's Office of Gang and Youth Violence Prevention, California Council on Criminal Justice, Fair Employment and Housing Commission and the Occupational Safety and Health (OSH) Standards Board.

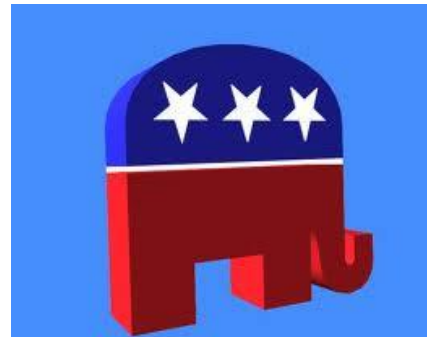
**Housing.** The May Revise includes additional allocations of Proposition 1C funding: \$25 million for the Housing, Urban, Suburban and Rural Parks Program; \$18 million for the Transit-Oriented Development Program; and \$20 million for the Building Equity and Growth in Neighborhoods (BEGIN) Program. Previously proposed language restricting the Department of Housing and Community Development's (HCD) authority to approve pending and future awards has been withdrawn. Also proposed for a reduction are 8.5 positions in the Division of Housing Policy Development within HCD. This Division is responsible for housing element reviews. Given that the budgeted staff for this unit is 21 positions, it is unclear what impact such a reduction will have on housing element reviews.<sup>71</sup>

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<sup>71</sup> "Governor Issues May Revise, Reforms Enterprise Zones but Continues to Push for Redevelopment Elimination," League of California Cities, City Advocate Weekly, May 27, 2011.

## **Republican State Budget Proposals.**

Just four days before Governor Jerry Brown was set to release his May Revised FY2012 budget proposal, the Assembly Republican Caucus issued a budget proposal on Thursday to close the state's deficit without raising taxes through strategic spending cuts, cost savings and extra revenues derived from an improving economy. Important to cities, the proposal protects local public safety funding, pulls enterprise zones off the table, and recognizes the redevelopment funding proposal developed by the California Redevelopment Association (CRA) as a viable option.



The Republican Caucus proposal builds upon \$14.3 billion in cuts and other solutions that the Legislature has already enacted toward resolving the \$26.5 billion budget deficit. The first step outlined recognizes an additional \$5 billion in revenue (\$2.5 billion in higher tax revenues for the state's current year budget announced this week by the Department of Finance, and another \$2.5 billion for FY2012).

While identifying protection of both education and public safety as its top priorities, the Republican Caucus suggests that the budget can be closed through additional actions including: saving \$1.1 billion by cutting state employees by 10 %; agreeing to another \$1.3 billion in cuts originally proposed by the Governor; obtaining \$2.4 billion by transferring all remaining Proposition 10 (First 5 Commission) and Proposition 63 (tax on millionaires for Mental Health) funds; and accepting more than \$1 billion in cuts and other proposed solutions recommended by the Legislative Analyst and the Bureau of State Audits.

The release of this proposal establishes some interesting dynamics for the next round of budget discussions. In January, the Governor originally proposed a budget solution that relied on half cuts and half revenues from the tax extensions. Many of the cuts were adopted in late March. The Governor and Democrats have insisted that without the tax extensions there would be severe impacts to education and public safety. However, by also identifying protection of education and public safety as its top priority, the Republican Caucus proposal attempts to seize the political high ground and remove these issues from the debate over tax extensions.<sup>72</sup>

Having failed to win enough Republican votes to put the taxes on the ballot in June, the Governor is expected to ask lawmakers to impose at least some of the levies first and seek Californians' blessing after the fact, said officials with knowledge of Brown's plan. Support for Gov. Jerry Brown's tax package in a potential special election continues to be mired below 50% of likely voters, according to a new poll, which is likely to further embolden Democrats and their labor allies who have called on the governor to abandon his pursuit of a public referendum. Even before this latest survey, Democrats had said they feared that lukewarm support would make an election on taxes a losing proposition.<sup>73</sup>



## **Budget Outlook.**

The constitutional deadline for adoption of the state budget is June 15. The Governor and the Republicans are far from any agreement on how to deal with the budget shortfalls. This may change since Proposition 25, approved by the voters last November, requires forfeiture of State Legislators' pay if the deadline is missed. The Governor has proposed deep cuts to social programs and tax extensions as key elements in his May Revise of the FY2012 proposed state budget. The Republicans are currently blocking any effort to bring the tax extensions to a vote.

<sup>72</sup> "Assembly Republican Caucus Releases Budget Proposal in Advance of May Revise," League of California Cities, City Advocate Weekly, May 13, 2011, p. 1-2.

<sup>73</sup> "Voter Support for Brown's Taxes Still Below 50%," Los Angeles Times, June 1, 2011.

The question, as yet unanswered, is whether credit rating agencies and lenders will find the new budget credible. State lawmakers and the Governor were so worried that the FY2011 State budget would not pass the creditworthiness test, politicians included in the 31-bill budget package one measure that allows the State to sell its paper to its own State Compensation Insurance Fund (which is also for sale) and the state lottery.

**All of this means that the State budget crisis is going to be with us during FY2012 and for many years to come—affecting the City of Twentynine Palms and placing its revenues in constant danger from being taken by State politicians.** Unfortunately, despite the rhetoric there is no serious attempt at the State level to cut spending, reduce the work force or make significant changes in the way State agencies do business. The State Legislature will not cut spending, State employee unions will not make any concessions, and politically powerful special interests fight change. The FY2012 State budget is unlikely to solve the fundamental fiscal structural problems in the State of California. Until this is addressed, we can expect this to happen again next year--and perhaps with every business cycle in the future. It takes a State Legislature and Governor with the political will to resolve these serious structural financial problems. These two institutions in California do not have the political will now, nor are they likely to have it in the foreseeable future.

**California Proposition 13 Base Value was Negative in FY2011, but Positive in FY2012 Based on Consumer Price Index (CPI) Adjustment.**



**California Proposition 13 base property values were reduced by 0.237% by the Board of Equalization for the FY2011.**<sup>74</sup>

This is the first time since the passage of Proposition 13 that the annual adjustment to real property was adjusted downward. Proposition 13 provides for an annual adjustment of real property (land and improvements) values based upon the Consumer Price Index (CPI), with a cap of two percent per year. The time frame for measuring the California Consumer Price Index (CPI) is from October to October.

The reduction in the Consumer Price Index (CPI) provided property owners, whose values have not been already reduced due to Proposition 8, with a slight reduction in property taxes for FY2011. Property owners whose values were reduced due to Proposition 8 to values below the Proposition 13 base, did not experience any further reduction in assessed valuation (AV). This means that all cities received less property tax revenue in FY2011.

**The Board of Equalization reports that California Proposition 13 base property values will increase by 0.753% during FY2012 due to an increase in the Consumer Price Index from October 2009 to October 2010.**

<sup>74</sup>California Department of Industrial Relations, Division of Labor Statistics.

## **State Funding Cuts to Twentynine Palms.**

**City Property Tax Shift to State Government.** In 1992, facing a serious State budget deficit, the State of California began taking local property taxes from cities, counties and some special districts to reduce the cost of education to the State General Fund. Under the Education Revenue Augmentation Fund (ERAF) property-tax diversions, cities, counties and special districts across the State of California have sent State government over \$97 billion since the early 1990's. Twentynine Palms currently sends approximately \$259,493 in City-levied property tax to Sacramento each year.<sup>75</sup> **Total property tax taken from Twentynine Palms by the State Legislature and Republican and Democratic Governors from FY1992 through FY2012 is \$4,309,324.<sup>76</sup> This does not include funds diverted by the State of California from the Twentynine Palms Redevelopment Agency.**

**Twentynine Palms Redevelopment Agency Property Tax Shift to State Government.** The State Legislature adopted legislation in September 2002 to take \$75 million in redevelopment funds from cities and counties throughout the State of California to assist in solving the State budget crisis. Twentynine Palms was required to contribute \$5,336 during FY2003 to the State's Education Revenue Augmentation Fund (ERAF). The budget passed by the Legislature on July 29, 2003, required municipal Redevelopment Agencies to pay \$135 million in local property taxes to the State Education Revenue Augmentation Fund (ERAF) by May 10, 2004. Twentynine Palms' FY2004 share was \$35,571. The agreement between the League of California Cities and the Governor included in the State budget passed by the State Legislature on July 27, 2004, required municipal Redevelopment Agencies to make additional contributions to the State Education Revenue Augmentation Fund (ERAF) in FY2005 and FY2006. Twentynine Palms' share of that State-wide contribution was \$19,823 for FY2005 and \$19,820 for FY2006.

These transfers of municipal property tax increment revenues reduced the State General Fund educational obligations. Funds collected from municipalities were distributed by the San Bernardino County Auditor in accordance with instructions received from the school superintendents and chancellors of the community colleges.<sup>77</sup>

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<sup>75</sup> **History of the Education Revenue Augmentation Fund (ERAF):** When Proposition 13 was on the ballot in 1978, State Treasurer Jess Unruh publicly stated that the State had an "obscene surplus" of \$4 billion. This State surplus was one of the factors that probably led to the passage of Proposition 13, which limited property taxes to one percent of the assessed valuation. After the passage of Proposition 13, the State Legislature used most of the \$4 billion to "bail out" local governments, by replacing much of the property taxes that had been lost with State funds. Since the State Legislature was prohibited from giving funds directly to cities, counties and special districts, formulas were devised wherein property taxes were shifted from schools to local governments, and the State used its funds to replace the school funds. The legislative vehicle used to accomplish the purpose was Assembly Bill 8.

This system worked until the early 1990's when the State faced huge budget deficits. The State Legislature, in addition to raising some taxes, turned to local government to collectively generate more than \$4 billion through what became known as the "Assembly Bill 8 Reversal." In effect, the State Legislature reversed what it had done after Proposition 13, by shifting property taxes from local government back to the schools, thereby freeing up a like amount of money in the State General Fund to be used for other purposes. To account for or track the funds shifted to the schools, the "Education Revenue Augmentation Fund (ERAF)" was established. It was important for the State to establish the ERAF account because, as the property tax value in the ERAF increases each year, it offsets the amount of money the State must pay schools under the Proposition 98 State funding guarantee for education. Legislative efforts by local government groups over the years to require that the growth of ERAF be given to local governments rather than the schools have been defeated or vetoed by the Governor. The California Department of Finance argued that it would result in a "cost" to the State of at least \$150 million in the first year alone, as the State would have to provide an amount to schools equal to the amount shifted to local government from the ERAF account.

<sup>76</sup>Source: League of California Cities.

<sup>77</sup>Source: California Redevelopment Association (CRA).

The FY2007 and FY2008 State budgets contained no Twentynine Palms Redevelopment Agency property tax shift to State Government. However, in FY2009, the State Legislature adopted AB1389 which shifted \$350 million from city redevelopment agencies across the State of California to the State Education Revenue Augmentation Fund (ERAF). The Twentynine Palms Redevelopment Agency share of this was \$20,066. **The state raids on redevelopment agency funding continued in FY2010 and FY2011 with the State Legislature and the Governor taking \$1.7 billion state-wide in redevelopment funds in FY2010 and \$350 million in FY2011. Twentynine Palms' share was \$478,586 in FY2010 and \$99,000 in FY2011.**

**Staff has budgeted \$99,000 in FY2012 in anticipation of another \$350 million State raid on redevelopment agencies.**

**Legal Action to Protect Funding for Redevelopment Agencies.** The California Redevelopment Agency Association (CRA) and the cities of Moreno Valley and Madera filed a lawsuit, seeking to invalidate the requirement that the transfers be made and to prohibit the State from enforcing county auditors to divert these redevelopment funds to the Education Revenue Augmentation Fund (ERAF).

The court ruled in favor of the cities and found that State raids of redevelopment funds to balance the State's budget were unconstitutional, violating Article XVI, Section 16 of the California Constitution. This Section in Article XVI states that redevelopment funds can only be used to finance redevelopment project activities. The judge found that taking redevelopment funds to balance the State's budget—the unquestioned reason for AB1389 does not qualify as a constitutionally permitted use of tax increment funds and is a clear violation of the California Constitution. Superior Court Judge Lloyd Connelly held that “the distribution of contributions by RDAs to their county Education Revenue Augmentation Fund (ERAF) in accordance with the requirements of Section 33685 can be expected to regularly result in the use of RDAs tax increment revenues by schools and education programs unrelated to RDAs redevelopment projects.”<sup>78</sup>

Despite the clear unconstitutionality and the Superior Court ruling, just three months later in July 2009, State Legislators and the Governor approved budget bill ABX4-26 which authorized a \$2.05 billion raid of local redevelopment funds, including \$1.7 billion in FY2010 and another \$350 million in FY2011. The bill required these funds to be deposited by the City into the county “Supplemental” Education Revenue Augmentation Fund (SERAF) to be distributed to schools to meet the State's Proposition 98 obligations to education. The State Legislature tinkered with the language of the bill in an attempt to overcome its previous adverse court ruling on the taking. Under this bill, funds distributed to schools or county offices of education from SERAF must be used to serve pupils living in the project area or in housing supported by redevelopment funds. The State claims that funding schools within a redevelopment project area “furthers” the purpose of redevelopment.

**On May 4, 2010, Sacramento Superior Court Judge Lloyd Connelly upheld ABX4-26. The California Redevelopment Association (CRA) Board of Directors voted to appeal the judge's decision and requested a stay on the payment of redevelopment funds to the State pending a decision of the Court of Appeals. Judge Connelly denied the request for a stay and California Redevelopment Association (CRA) advised its members to make their payments.<sup>79</sup> On May 10, 2010, the City of Twentynine Palms made its required FY2010 payment of \$478,586.**

League of California Cities Executive Director Chris McKenzie reacted to the Court's decision by comparing it to an elaborate shell game with public funds:

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<sup>78</sup>California Redevelopment Association (CRA), Community Redevelopment Agency of the City of Moreno Valley, Madera Redevelopment Agency and John F. Shirley, an Individual v. Michael C. Genest, Director of the Department of Finance, and Robert E. Bryd, Auditor-Controller of the County of Riverside on his own behalf and as the representative of all other County Auditors in the State of California, and Does 1 to 30.

<sup>79</sup>California Redevelopment Association (CRA).

“The Court upheld a scheme yesterday that lets Sacramento politicians steal local redevelopment funds for any purpose they can cook up and call it a ‘redevelopment’ purpose. Today the politicians are raiding redevelopment funds to offset what the state owes schools without actually benefiting the schools. Tomorrow, if this court decision is upheld, they will steal local funds to finance virtually any program so they don’t have to honestly balance the state budget. The possibilities are virtually endless. This type of state budget gimmickry only deepens the public’s cynical view of state officials and destroys local efforts to create jobs and stimulate California’s weakened economy.”<sup>80</sup>

**Redevelopment Agency Reform.** After months of contentious debate over the Governor's proposal to abolish redevelopment agencies in California, groups representing local governments and redevelopment agencies have offered an alternative proposal that strikes a reasonable compromise for all involved. Under a compromise proposal sponsored by the California Redevelopment Association, redevelopment agencies would contribute 20% of their revenues in FY2012. These funds may be used from any redevelopment funding source, including low-to moderate-income housing funds.

In addition, agencies could contribute up to 10% of their non-housing funds for another 10 years. In exchange for these voluntary contributions, redevelopment agencies would be granted extensions of their projects' life spans. After conducting a survey of local redevelopment agencies throughout the state, we estimate this plan would raise \$700 million to \$1 billion for the first budget year, and an additional \$1.7 billion for the following nine years. In all, the plan could mean approximately \$2.7 billion over the 10-year life of the proposal, more than what the governor estimates would be available for deficit reduction from the elimination of redevelopment agencies.

While the vast majority of local agencies act responsibly, reforms are needed to increase the accountability and efficiency of all agencies. Toward that end, the California Redevelopment Association has also offered a package of important accountability reforms, including:

1. **Enhanced Reporting.** It requires the state controller to update and toughen audit guidelines for redevelopment agencies and requires agencies to file with the state an annual report on their finances and activities. The availability of consistent, transparent audits will lead to more accountability and will help expose any abuses.
2. **Focus More on Job Creation.** The reform proposal refines the statutory authority of redevelopment agencies to provide direct assistance to businesses to build new or expand existing manufacturing and industrial facilities to grow jobs. Agencies would also be authorized to assist local businesses with financing for new technologies, machinery and equipment that also expand manufacturing and industrial job-creation.
3. **Focus on Infill Development and Energy Efficiency.** The reform would expand redevelopment tools to facilitate intensified infill development of urban areas, including assisting with the creation of commercial facilities, jobs and higher-density residential housing in the urban core, close to public transit. Agencies would also be authorized to provide financial and other assistance to remodel commercial and residential buildings to be more energy efficient to reduce pollution and greenhouse gases.
4. **Promote More Affordable Housing.** Redevelopment agencies are the second-largest funder of affordable housing in California, behind only the federal government. In fact, since 1993, agencies have helped create nearly 100,000 units of affordable housing. The reform

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<sup>80</sup>“The League of California Cities Calls Ruling Upholding the State Raid on Redevelopment a Court-Sanctioned Shell Game: Decision Threatens Jobs and Economic Recovery,” *League of California Cities*, May 5, 2010, p. 1.

proposal contains 14 reforms to ensure agencies are spending housing funds responsibly. These include limitations on the use of funds for administration and other significant changes to make agencies spend housing funds more efficiently and on the actual production of affordable housing.<sup>81</sup>

**Vehicle License Fees (VLF).** In FY2004, the State Legislature passed a budget that allowed it to take the scheduled vehicle license fee (VLF) backfill payments for July, August and September 2003 to help close the \$38.5 billion State budget deficit. The raid on City revenue was constructed as a “loan” to the State that was to be paid back by the State Legislature in August 2006. The State of California took \$131,060 in vehicle license fees (VLF) from Twentynine Palms as a loan during FY2004.<sup>82</sup>

In FY2005 the State Legislature permanently reduced the vehicle license fees (VLF), commonly called the “car tax” from 2% to 0.65% of the vehicle’s value. The vehicle license fee (VLF) backfill to cities and counties (approximately \$4.4 billion) was eliminated and replaced with a like amount of property taxes, dollar for dollar. **Subsequent to the FY2003-2004 base year, each city’s and county’s property tax in lieu of the vehicle license fee (VLF) or “VLF adjustment amount” increases annually in proportion to the growth in gross assessed valuation.** The 0.65% vehicle license fee (VLF) dedicated to local governments became constitutionally protected when Proposition 1A passed on November 2, 2004. The State of California promised to replace City vehicle license fees (VLF) with property taxes, less Twentynine Palms’ share of the \$1.3 billion contribution by city governments to state government for FY2005 and FY2006. This exchange of vehicle license fees (VLF) for property tax is commonly called the “VLF Swap.” **The FY2012 State budget contains no transfer of vehicle license fees (VLF) from cities to State Government. Twentynine Palms’ vehicle license fees (VLF) under the vehicle license fee (VLF) property tax “swap” are projected to be down from \$124,320 in FY2008 to \$75,000 in FY2011 and FY2012.**

**Sales Tax Triple Flip.** In FY2005 the State of California swapped one quarter percent of Twentynine Palms’ sales tax revenue for an equal amount of property tax revenue to provide a dedicated funding source for Proposition 57 (California Economic Recovery Bond Act) repayment approved by the voters on March 2, 2004. The quarter cent sales tax loss (called the “triple flip”) at the local level has been reenacted at the State level.<sup>83</sup> **The City projects that property taxes in lieu of sales taxes will be flat at \$295,000 during FY2012.**

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<sup>81</sup> “Viewpoints: Compromise Offered on Redevelopment Agency Proposal,” *Sacramento Bee*, March 29, 2011.

<sup>82</sup> Report from the Division of Accounting and Reporting from the State Controller’s Office shows that Twentynine Palms’ Vehicle License Fee Assembly Bill 1457 loan is \$280,812.71. Assembly Bill 1457 requires the State to pay the cities back in August 2006.

<sup>83</sup> “The Triple flip” works as follows:

1. On August 15 of each year that the “triple flip” is in effect, the State Board of Equalization will give the Director of Finance (DOF) an estimate, based on the prior fiscal year, of what the “countywide adjustment amount” should be. **“Countywide adjustment amount” means the combined total sales tax revenue loss of the county and each city in the county for the year.**
2. On September 1, the Director of Finance (DOF) notifies the county auditor of the portion of the “countywide adjustment amount” to be allocated for each city and county.
3. In January and May (date not specific)—the county auditor allocates one-half of the amount identified on September 1 to cities and counties.
4. At the end of the fiscal year (no date specified) for which an adjustment amount was determined, the Director of Finance (DOF) recalculates adjustment amounts (combined total sales tax revenue loss of the county and each city) based on actual collections and notifies the county auditor of the recalculated amount.
5. In the fiscal year following the year in which a recalculation was made (no date specified) the county

**County Property Tax Administrative Fees.** The dispute over county folding of the triple flip and Vehicle License Fee (VLF) in lieu payments into the base Proposition 8 property tax formula to calculate the costs of administration continues. This action by San Bernardino County has increased the cost to San Bernardino for the collection of City property tax. The administrative fee charged to the City of Twentynine Palms by San Bernardino County increased from \$63,870 in FY2009 to \$75,000 in FY2011. **The San Bernardino County property tax administrative fees charged to Twentynine Palms is projected to be at least \$75,000 to the General Fund and \$25,000 to the Redevelopment Agency during FY2012.**

Hardliners on the County side of the issue are urging their members to hold the line maintaining that changing the methodology might also impact how supplemental rolls are handled. There have been rumors of litigation, but none has been filed. Other rumors suggest that cities in a few counties are talking about a compromise that would place the permanent Vehicle License Fee (VLF) into the Proposition 8 formula while charging just the marginal costs on the more temporary triple flip backfill.<sup>84</sup>

**Reductions in Transportation Development Act (TDA) Distributions.** FY2012 will see a continued reduction in Transportation Development Act (TDA) distributions to Twentynine Palms and other cities in San Bernardino County. The amount of Transportation Development Act (TDA) revenue the City receives depends upon three things: (1) State distributions of State Transit Assistance (STA) funds, (2) State distribution of Transportation Development Act (TDA) funds from the ¼ cent sales tax dedicated to transportation and (3) the expenses of the Morongo Basin Transit Authority (MBTA) that operates the bus system in the County.

The most significant factor affecting this year's Transportation Development Act (TDA) distributions to the City of Twentynine Palms is a projected reduction in the ¼ cent State sales tax dedicated to transportation. **Lower collections of the ¼ cent sales tax dedicated to transportation along with reductions in State transit funds (STA) will result in only \$250,000 in Transportation Development Act (TDA) funds coming to the City of Twentynine Palms.** This is a substantial reduction in revenues from FY2007 when the City received \$722,477 in Transportation Development Act (TDA) funds. (Please see Figure 8.)

### **State Laws and Regulations that Drive Up City Costs.**

In addition to taking the City's vehicle license fees and property taxes, bills in recent years also increase the cost of City government.

**Workers' Compensation.** Assembly Bill 749 substantially increased employers' costs for workers' compensation insurance by increasing employee benefits and making other changes that have resulted in workers' compensation rates that are the highest in the nation. Workers' compensation reforms adopted in Senate Bill (SB) 899 in April 2005 have made some positive changes to the workers' compensation system and have addressed some past abuses. In 2006, the Workers' Compensation Appeals Board upheld the new Permanent Disability Rating Schedule included in the Workers' Compensation reform laws. The Board ruled that stricter standards for judging disability were valid.

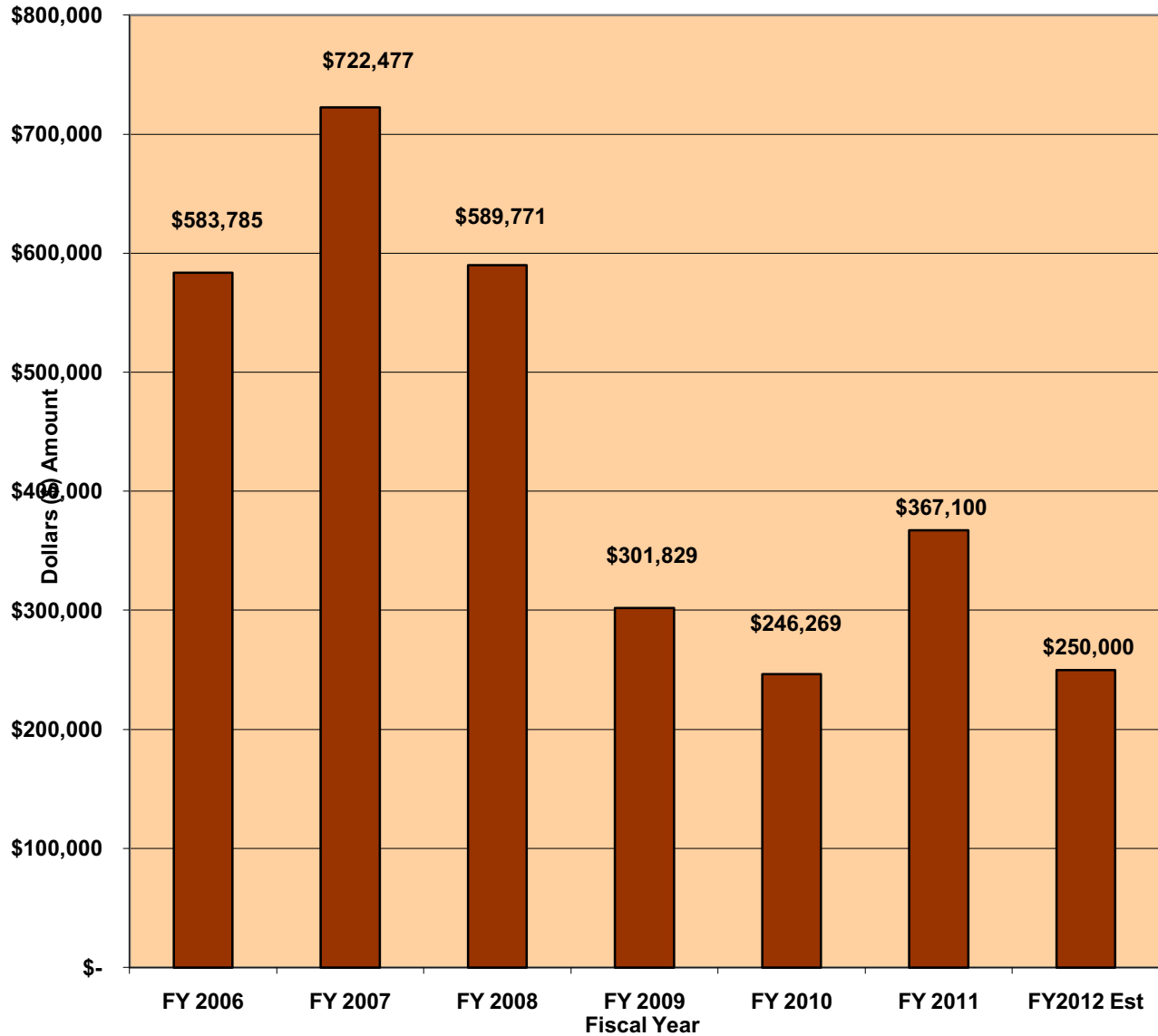
Public Agency Risk Sharing Authority (PARSAC), a public sector risk pool made up of 37 cities throughout the State of California, provides the City of Twentynine Palms with workers' compensation insurance coverage up to statutory limits per occurrence, including volunteer operations. The organization self-funds up to \$500,000. Losses in excess of this amount up to \$300 million are covered via the Local Agency Workers' Compensation Excess Pool (LAWCX) and reinsurance. Twentynine Palms has first dollar coverage under this

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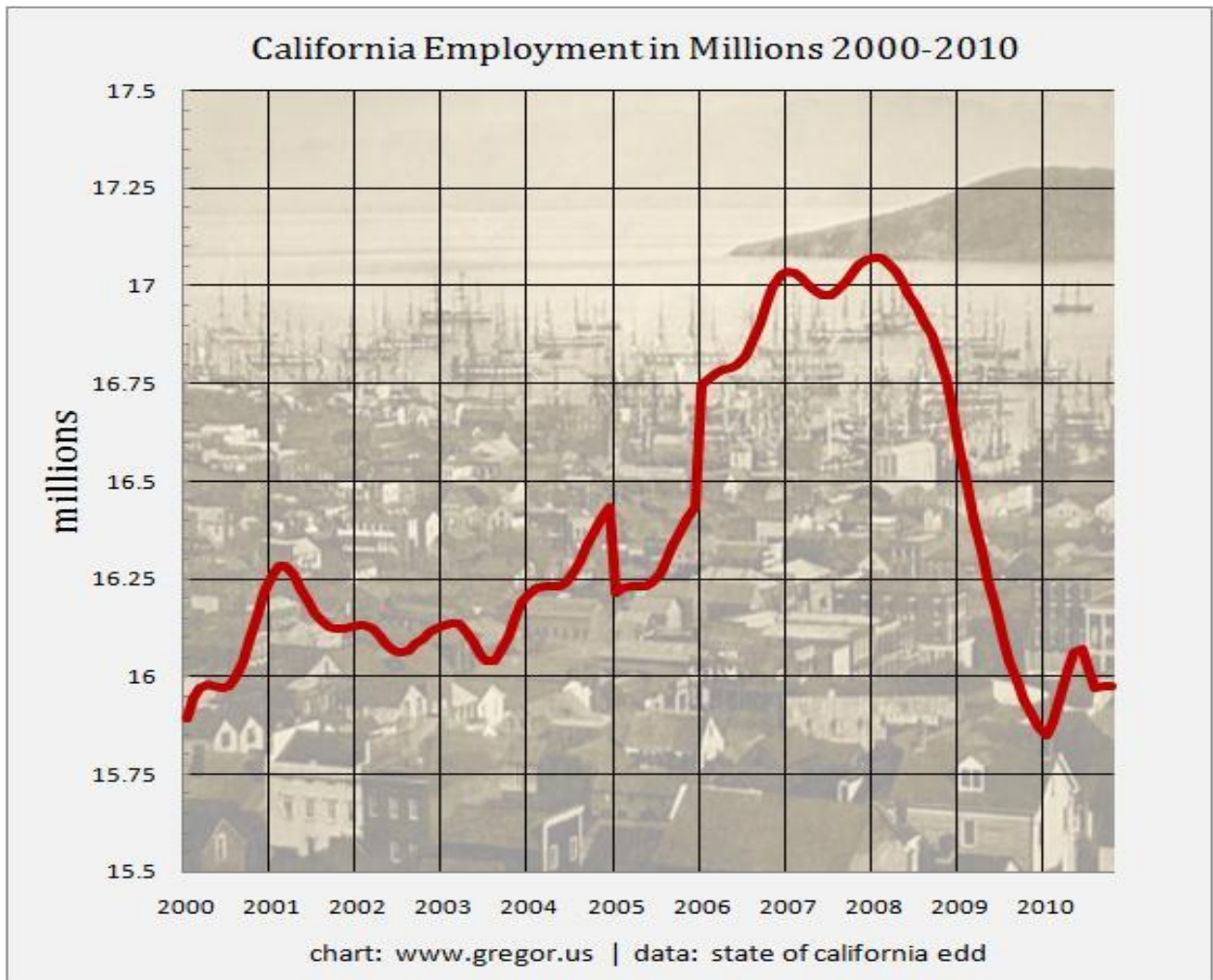
auditor shall allocate the excess amount, or for overpaid amounts, transfer it back to the Education Revenue Augmentation Fund (ERAF).

<sup>84</sup> "Sales Tax Briefs: Issue Update #1," The HdL Companies, June 2008, p. 2.

**Figure 8**  
**City of Twentynine Palms**  
**Transportation Development Act (TDA) Revenue**  
**FY2006 to FY2012**



**This Figure shows the declining Transportation Development Act (TDA) funds that the City has been receiving through the San Bernardino Associated Governments (SANBAG) for Twentynine Palms streets and roads. The City is only projected to receive \$250,000 in Transportation Development Act (TDA) funds during FY2012.**



program. Twentynine Palms pays 6% of its gross payroll to PARSAC for workers' compensation insurance. This premium has not changed for many years.

**Unemployment Insurance Reimbursements.** Senate Bill 40 increased the unemployment benefits and unemployment insurance reimbursement costs for the City of Twentynine Palms. The maximum weekly benefit paid to the unemployed rose to \$330 in FY2002, \$370 in FY2003 and to \$450 in FY2009. This increase in weekly benefits coupled with a downturn in the economy has taken a toll on the State Unemployment Insurance Fund. The State Unemployment Insurance Fund balance has dropped from a surplus of \$5.6 billion in 2001 to a deficit of \$20 billion in 2011.<sup>85</sup>

With nearly 2.5 million California workers jobless, the Unemployment Insurance Fund (UIF) is paying out more than \$11 billion a year in benefits while collecting just \$4.5 billion in payroll taxes. The Unemployment Insurance Fund (UIF) began running deficits in January 2009, and has been sustained by loans from the federal government. The loans have been interest-free but the State, under current federal law, must begin paying interest next year. California will have an interest payment of \$500 million in September 2011. Mac Taylor, the director of the Legislative Analyst Office (LAO) stated that the State Legislature faces difficult choices to return the

<sup>85</sup> "California's Other Big Deficit: Unemployment Insurance Fund," Capitol Alert, October 20, 2010, p. 1.

Unemployment Insurance Fund (UIF) back to solvency. It will need to reduce benefits, raise payroll taxes or a combination of both. Any of these choices could have an adverse affect on the fragile California economy. <sup>86</sup>

The funding crisis is not immediate. The State can borrow interest free from the Federal Government under Obama's economic stimulus program. Until 2011 no interest is owed. Then the State must begin paying \$609 million in interest. Full repayment is due to the Federal Government by September 2011.

To address the deficit in the State Unemployment Insurance Fund, the state will probably (1) increase the \$7,000 wage base on which payments are required and (2) increase the maximum tax rate from 6.2% to 8.1%. In return eligibility may be tightened. Claimants would have to work 7.5 weeks or more per year rather than the minimum 3.5 weeks required now. However, these cost savings measures may be offset by a boost in benefits. Coverage will be extended to many of the 40% of workers who make too little each year to be covered. The Federal Government has insisted on increasing the number of covered workers as a condition to receiving money under the federal stimulus bill.<sup>87</sup>



**Prevailing Union Wages Law.** Senate Bill 975, signed into law by Governor Davis on October 14, 2001, requires cities to pay “prevailing union wages” as set by the State Director of Industrial Relations on all projects “paid for in whole or in part out of public funds.” This statute alone drives up the cost of Twentynine Palms’ public works projects by 30%-40%.

### **Local Government Financing Reform Ballot Initiatives.**

City officials have learned from their experience in the 1990's that when the State Legislature is faced with the unpleasant job of cutting funds for services, it is easier to cut local government (which cannot give campaign contributions and frequently do not have a vocal constituency) than it is to cut funding for State programs. In times of crisis cities hear calls from State Legislators that everyone should share the pain. The obvious theory behind such calls is because everyone shared in the benefits of the previous prosperity, everyone should shoulder their “fair share” of the reductions as well. These share-the-pain arguments sound good, but the plain truth is there are rarely across-the-board budget increases or cuts. This has been the case with State funding of City programs. During the height of the State surpluses in recent years, Governor Davis, Governor Schwarzenegger and the State Legislature continued to divert billions in city, county and special district property taxes and other funds to pay for education, rather than use State General Fund monies for that purpose. City programs have typically been the last funded and the first cut by the Governor and State Legislature. In response to these raids on local governments, cities, counties, redevelopment agencies and other partners sponsored several ballot initiatives to protect local government revenues.

**Proposition 1A (2004).** Proposition 1A was approved by 84% of the voters in 2004 and allowed State government to take \$1.3 billion in local government revenues over FY2005 and FY2006. In return for this revenue shift to State government, Proposition 1A also has the following provisions:

**1. Property Taxes.** Constitutionally protects city, county and special district property taxes in the aggregate by county (including growth). Requires 2/3 vote of the State

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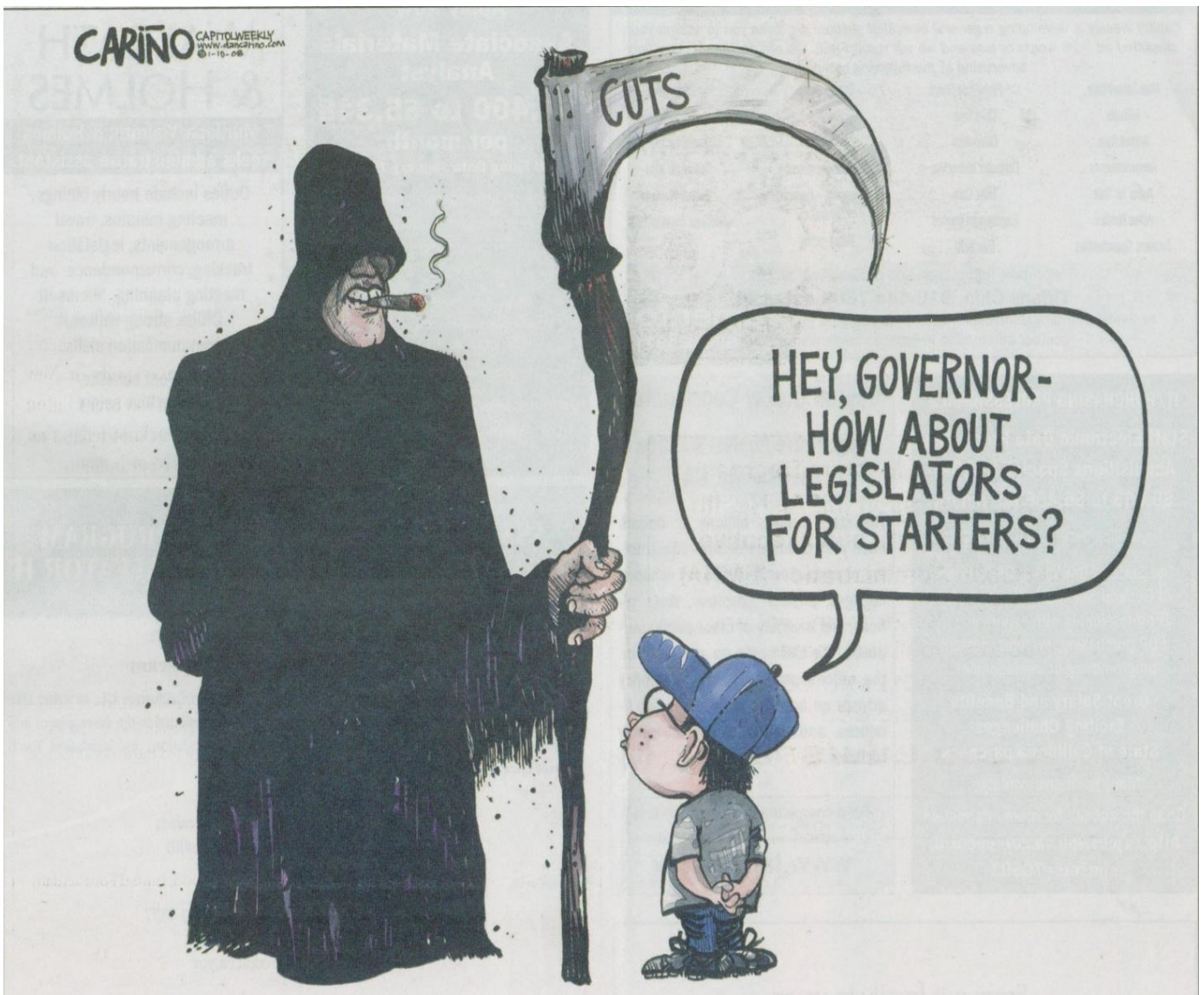
<sup>86</sup>“California’s Other Big Deficit: Unemployment Insurance Fund,” Capitol Alert, October 20, 2010, p. 1.

<sup>87</sup> The Kiplinger California Letter, Vol. 45, No. 3, February 11, 2009, p. 3.

Legislature to reallocate property taxes from one local government to another within each county. It retains the existing funding shift from local governments to school districts as part of the Education Revenue Augmentation Fund (ERAF), but does not allow the State Legislature to permanently increase the amount of these shifts in the future. The State Legislature may increase local governments' share of property tax.

**2. Sales Taxes.** Constitutionally protects each city's and county's existing Bradley-Burns one percent sales tax rate and method of distribution (including growth), plus any local sales taxes approved by the voters for general purposes, public safety, transportation, library, etc.). Proposition 1A also guarantees return of the  $\frac{1}{4}$  sales tax to cities and counties when Proposition 57 bonds are retired.

**3. Vehicle License Fees.** Statutorily reduces the vehicle license fee rate from 2% to 0.65% (current effective rate). City and county backfill would be replaced with a like amount of property taxes that are constitutionally protected (less the two-year "contribution" by cities and counties of \$350 million each year). The remaining 0.65% of city and county revenue is also constitutionally protected. Repayment of the FY2003 vehicle license fee backfill gap loan (\$1.23 billion) was done in FY2007.



**4. Redevelopment Agencies.** Proposition 1A provided no additional protection for Redevelopment Agencies. This is probably the most serious deficiency of the compromise ballot initiative. Although some argue that there are already sufficient protections in the State Constitution and in State law, the State Legislature and Governor took Redevelopment Agency property tax revenues in FY2003, FY2004, FY2005, FY2006, FY2010 and FY2011.

**5. State Mandates and Automatic Suspension of Unfunded Mandates.** Proposition 1A constitutionally requires annual reimbursement to local governments for state-mandated local programs or mandates must be suspended, except for specified employee rights and benefits.

**6. State Fiscal Emergencies.** The State may borrow local government property taxes if the Governor proclaims a “significant State fiscal hardship” and under the following conditions:

- (a) A separate urgency bill must be passed by 2/3 vote of the State Legislature.
- (b) The State Legislature must pass a statute to fully repay the loan with interest within three fiscal years at the same time the urgency bill is passed.
- (c) The State vehicle license fee gap loan must be repaid, capped at 8% of local government property tax (equivalent to \$1.3 billion in today’s property tax dollars).
- (d) No more than two loans may occur during any ten-year period.
- (e) New loans are prohibited until prior loans have been repaid.

**7. Future Reforms.** Constitution protection measures in Proposition 1A would retain authority for the State Legislature in the future to approve the exchange of local sales taxes for an equal amount of property taxes when requested by local governments. Any type of voluntary exchange must be revenue neutral.

**Proposition 22 Local Taxpayer, Public Safety and Transportation Protection Act of 2010.** This initiative prohibits the State from shifting, taking, borrowing, or restricting the use of tax revenues dedicated by law to fund local government services, community redevelopment projects, or transportation projects and services. The initiative also prohibits the State from delaying the distribution of tax revenues for these purposes even when the Governor deems it necessary due to a severe State fiscal hardship. It also requires the State Comptroller to automatically appropriate funds needed to pay a local government that successfully sues the State and wins.

Language for the proposed initiative was filed with the California Attorney General on October 20, 2009, by an alliance of local government groups, including the League of California Cities. 1.1 million qualifying signatures were filed with election officials on April 29, 2010. Their goal was to “wall off” money in local government budgets from the State government. The initiative prohibits the state from taking local government, transit and transportation funds. Proposition 1A approved by the voters in 2004 allowed the State government to borrow from some categories of local funds during fiscal emergencies.

# City Economic and Fiscal Trends

## Twentynine Palms is a City on the Move

### **Twentynine Palms Economy.**

Twentynine Palms is a City on the move with a bright future. The community has many assets that make it an attractive and unique place to live, work and play. These features include desert lands, scenic vistas, year-round sunshine, warm winter weather, clean air, clear night skies, murals<sup>88</sup>, low crime, excellent recreation amenities and a small-town rural character. Community events and cultural and artistic facilities such as the art gallery and museum are important components of the community. Its people are patriotic, hard working, and love the arts, the desert environment. They are active and engaged in the City, County, and school affairs and are eager to volunteer their time and talents to help one another and make the community a better place today and for future generations.

**The City's economy is intertwined with the economy of San Bernardino County and the economic impact of Joshua Tree National Park and the U.S. Marine Corps Air Ground Combat Center.**

**San Bernardino County.** San Bernardino County is the largest county in the nation in total land area. The county, along with Riverside County is called the Inland Empire, one of the fastest growth metro areas of the state and nation from 1997 to 2006. However, because the real estate and labor markets decline have been more pronounced in the area, the economic fallout has been severe over the last three years. San Bernardino County has a population of 2.1 million people. The California Employment Development Department (EDD) reports that 728,200 people were employed in the County during April 2011. Another 111,300 were looking for work. Unemployment in San Bernardino County stood at 13.3% in April 2011, down from 13.9 % in April 2010. San Bernardino County's unemployment rate ranked 31 among California's 58 counties.<sup>89</sup>



**The City of Twentynine Palms, excluding the Marine Corps Air Ground Combat Center (MCAGCC), had a labor force of 6,000 in April 2011. The California Department of Employment Development (EDD) reported that the City had 1,000 people unemployed for an unemployment rate of 15.9%. This was a decrease of 0.7% from an unemployment rate of 16.6% in April 2010.<sup>90</sup> The City's current unemployment rate is 34% higher than the State unemployment rate of 11.9% and the 76% higher than the national unemployment rate of 9%.**

The per capita income in San Bernardino County was \$27,387 and the average salary per worker was \$46,393. **Real per capita incomes are projected to increase an average of 0.9% a year.**

<sup>88</sup>The Oasis of Murals program consists of painting historical and cultural murals on the facades of community walls and buildings in the City. The murals have significantly increased the aesthetics in the area, promoted historical appreciation, increased cultural awareness, and spurred downtown revitalization and economic growth through increased tourism and business. The Action Council for 29 Palms, Inc. has completed 25 murals.

<sup>89</sup>California Employment Development Department (EDD).

<sup>90</sup> California Employment Development Department (EDD).

Economic growth in Southern California declined sharply in 2008 and 2009 and job losses were the largest on record. In 2009, 35,500 total jobs were lost in San Bernardino County, representing a steep negative growth rate of negative (-) 5.9%. Employment in the construction sector fell by 8,150 workers, a decline of 24%. The contraction was due primarily to a decline in new home production (down 90% from the peak in 2004). Employment declined in both the manufacturing and retail trade sectors by just over 7,000 jobs each. The only sector to record positive job creation was education and health services. **Between 2010 to 2015, the annual job growth rate is expected to average 2% a year.** However, manufacturing, professional and business services, information, construction, financial activities, and wholesale and retail trade are expected to grow between 10% and 25%.

The population growth rate fell to 0.8% in San Bernardino County in 2009, the slowest growth in nearly 15 years. This was due to significant out-migration for the first time in the County since the mid 1990s. **Population growth is expected to be an average of 1.5% from 2010 to 2015.** Net migration into the County is expected to be 6,100 people per year.

**Total taxable sales are expected to increase by an average of 2.5% per year from 2010 to 2015.** Industrial production is projected to increase by an average of 3.4% per year during the same period. Farm production is forecast to decline by an average of 3.7% per year between 2010 and 2015. Dairy products are the principal agricultural products.

San Bernardino County and the entire Inland Empire economy is expected to be sluggish until at least 2012. Over the longer-term, the Inland Empire is still positioned to record greater growth than the coastal counties.<sup>91</sup>

**Home Values. Home values continue to decline in Twentynine Palms. In March 2006, the median home value in Twentynine Palms was \$170,800. Since that time the median home value has fallen \$97,500 or 43% to \$73,300. Home values have fallen 23.2% over the last year and 5.5% over the last quarter.**<sup>92</sup>  
(Please see Figure 9 and Figure 10.)

The U.S. Housing and Urban Development (HUD) Section 8 program provides rental assistance to very low income households in need of affordable housing. The Section 8 program assists a very low-income household by paying the difference between 30% of the gross household income and the cost of the rent. Most Section 8 assistance today is structured as vouchers; this allows the voucher recipients to choose housing that may cost above the fair market rent as long as the recipients pay for the additional cost. In Twentynine Palms, 17 households receive rental assistance under the U.S. Department of Housing and Urban Development (HUD) Section 8 program.

**Joshua Tree National Park (JTNP).** Joshua Tree National Park (JTNP) is located on the southern boundary of the City. The park was declared a National Park in 1994 by Congress, but had been a National Monument since 1936. The park encompasses approximately 800,000 acres.

**Figure 9  
Twentynine Palms  
Home Price Slump**

<u>Month</u>	<u>Median Price</u>
March 2011	\$ 73,300
March 2010	\$ 95,500
March 2009	\$109,300
March 2008	\$122,700
March 2007	\$163,100
March 2006	\$170,800
March 2005	\$104,300
March 2004	\$ 80,300
March 2003	\$ 62,600
March 2002	\$ 60,800
March 2001	\$ 53,700
March 2000	\$ 54,000



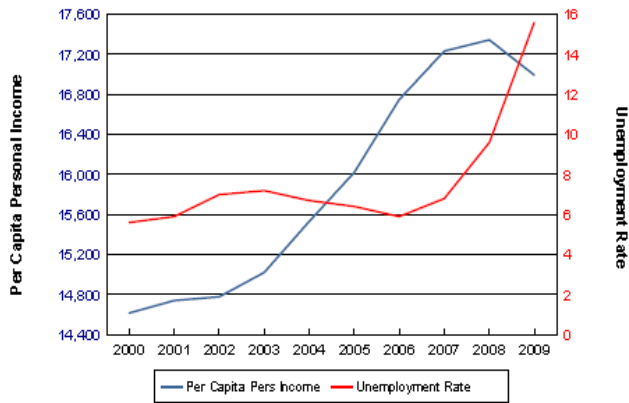
<sup>91</sup>“California County-Level Economic Forecast,” Office of Transportation Economics, Division of Planning, California Department of Transportation (CalTrans), March 2010, p. 141.

<sup>92</sup> Zillow.com

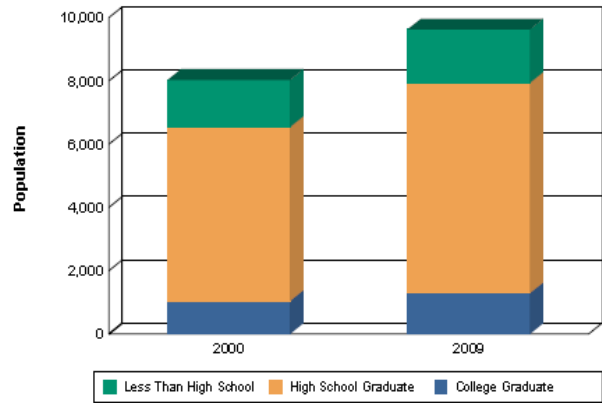
**Figure 10**  
**City of Twentynine Palms**  
**Demographic and Economic Statistics**  
**2001-2010**

<b>Year Ending</b>	<b>Population</b>	<b>Personal Income (In thousands)</b>	<b>Per Capita Personal Income</b>	<b>Unemployment Rate</b>
2001	30,123	444,061	14,742	5.9%
2002	25,513	377,033	14,778	7.0%
2003	25,102	377,087	15,022	7.5%
2004	26,276	408,083	15,531	6.7%
2005	27,447	439,728	16,021	6.4%
2006	29,909	500,963	16,750	5.9%
2007	29,515	508,655	17,234	6.8%
2008	30,482	528,732	17,346	9.6%
2009	30,795	523,369	16,995	15.6%

**Personal Income and Unemployment**



**Education Level Attained for Population 25 and Over**



**Notes and Data Sources:**

\*Decennial census data

Population: California State Department of Finance

Unemployment Data: California Employment Development Department

The park appeals to diverse groups offering many different forms of recreational activities such as nature walks, hiking, mountain biking, horseback riding, camping, rock climbing, bird watching and educational programs. Along with the park's headquarters and visitor's center, park facilities also include nine campground with table, fire pit and restrooms. There are three primary entrances to the park, one of which is located on Utah Trail.

**Joshua Tree National Park (JTNP) attracts 1.4 million visitors annually, with visitation to the park increasing from approximately 1.2 million since 2000, a growth rate of 11.4%.** Park visitation is forecast to increase to 2 million by 2015, an increase of approximately 600,000 or 120,000 visitors annually. Between 2015 and 2025, visitation is expected to increase by an additional 900,000 to around 2.9 million by 2025. CB Richard Ellis Consulting (CBREC) estimated that visitor retail expenditures totaled \$29 million. This represented the total demand base for retail uses and space generated by Joshua Tree National Park. This demand base will grow as the number of visitors increases over time, to approximately \$40.3 million by 2015 and \$58.3 million by 2025.<sup>93</sup>

**U.S. Marine Corps Air Ground Combat Center (MCAGCC). The U.S. Marine Corps Air Ground Combat Center (MCAGCC) at Twentynine Palms is located on 935 square miles in eastern San Bernardino County.**

This base is the primary desert and urban combat training center for all Marines heading into today's conflict areas around the globe. The base specializes in desert combat on the ground and in the air, through indispensable live-fire exercises and maneuvering called "Combined Arms Exercises" (CAXs). This is the only dedicated live-fire exercise and maneuvering range in the Marine Corps, replicating the war zones and battlefield of today. The base provides specific training for every Marine deploying to Iraq and Afghanistan, in complex large scale exercises called Mojave Viper and small customized exercises.

It also hosts the Marine Corps largest military occupational specialty school—in electronic communications. It has also been the development and testing center for unmanned aerial vehicles which have proven critical in counter insurgency operations in the Middle East.



The U.S. Marine Corps Air Ground Combat Center (MCAGCC) provides tremendous economic benefits to the City of Twentynine Palms and other communities in the region. **It is estimated that 69% of the City's population are directly employed, supported or related to the military in some way.**

**The base employs 14,811 civilians and military personnel.** It also generates an estimated 19,000 indirect regional jobs. The payroll and pension benefits of military retirees was estimated to be \$465,511,540 in 2006. That year, in Twentynine Palms alone, military and civilian retiree pension payments totaled \$25,020,360.<sup>94</sup>



CB Richard Ellis Consulting estimated that 17,200 or 60% of the military visitors to the U.S. Marine Air Ground Combat Center (MCAGCC) stay on base in billeted quarters and the balance of approximately 11,400 stay in hotels in the City of Twentynine Palms each year. These visitors generate demand for a total of approximately 69,000 room nights for

<sup>93</sup> "Downtown Revitalization Feasibility Study for City of Twentynine Palms," CB Richard Ellis Consulting, October 2006, p. ii.

<sup>94</sup> "Community Impact Assessment," Marine Air Ground Task Force Graining Command, Marine Corps Air Ground Combat Center, May 2008.

off-base hotel accommodation. By 2005, CB Richard Ellis Consulting estimated that total number of annual overnight visitors will be approximately 33,200 with the number staying in hotel accommodations off-base increasing to approximately 80,000 room nights. During 2006 retail expenditures for base overnight visitors at approximately \$4.3 million, of which approximately 80% or \$3.4 million was for retail sales. This demand base is expected to increase to approximately \$5 million by 2015.<sup>95</sup>

Health care expenditures in 2006 include TRICARE benefits to service members and their families and retirees totaled \$8,728,687. Naval Hospital Twentynine Palms officials estimate that at least half that amount stays with local health care providers in the Morongo Basin. Civilian health care is estimated at \$3,199,130, much of which stays local.

Military contracting stimulates the local and regional economies in direct and indirect ways. A total of \$152,266,179 in contracts are annually awarded by the base. The Provost Marshal's Office estimates that as many as 2,500 subcontractors were working on the Combat Center during the course of FY2006 for varying amounts of time, linked to the various construction and service contracts. Although a certain portion of these subcontractors are local residents, others stay in town at hotels and motels. These subcontractors also contribute to local retail revenues as they spend wages and per diem in local grocery stores, restaurants, and on automobile repair, gasoline (and associated taxes) and entertainment.

The federal government also compensates school districts for educating the dependents of federal employees including service personnel. In 2006, this amounted to \$1,676,700 from the Department of Defense and the Department of Education. The base also augments the total City population figures resulting in a higher portion of county and state tax allocation back to the City. A portion of Gas taxes and Measure I funds are allocated by population.

## **City Revenues.**

This increase in residential and commercial construction has brought new building permit revenues, sales tax revenues and property tax revenues to the community.

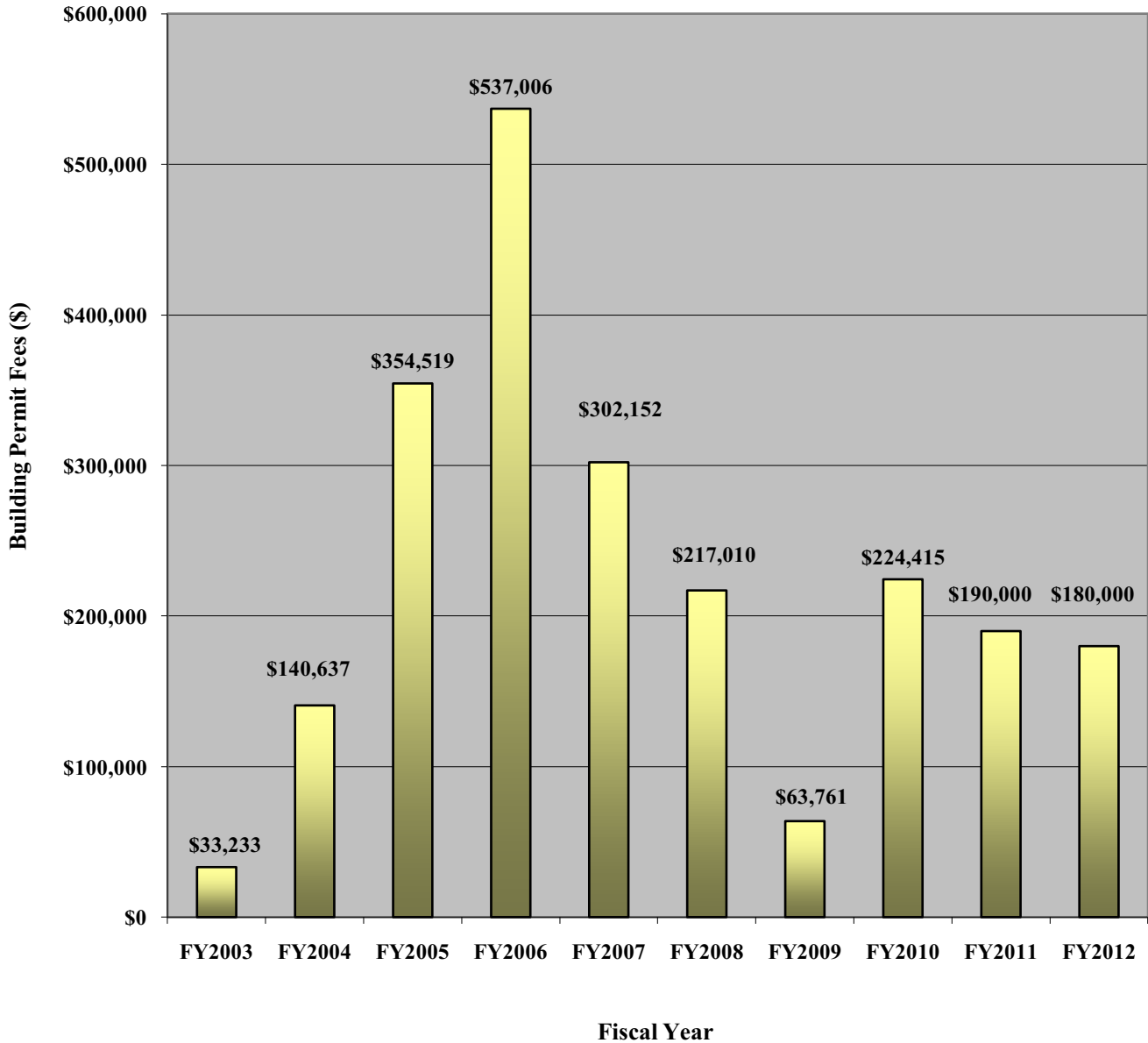
**Building Permit Revenues.** Figure 34 shows building permit revenues collected by the City of Twentynine Palms since FY2003. This table shows that building permit fees increased dramatically from \$33,233 in FY2003 to \$537,006 in FY2006. The collapse in housing construction in Twentynine Palms and throughout California has resulted in a drop of building permit revenues to \$63,761 in FY2009. **Since that time, building construction has made some recovery and building permit revenues in FY2010 were \$224,415. Building permit revenues are expected to be \$190,000 in FY2011 and \$180,000 in FY2012. (Please see Figure 11.)**

**Sales Tax Revenues.** The authority to collect sales and use taxes in Twentynine Palms is found in Title 3 Chapter 16 of the Twentynine Palms Municipal Code. Figure 12 shows that Twentynine Palms had a steady increase in sales tax collections from FY2003 through FY2010. Sales tax collections rose to \$674,539 in FY2003 and \$768,840 in FY2004. In FY2005, sales dipped due to the diversion of ¼ cent sales tax to the State of California for education (called triple flip). In FY2006, sales taxes again rose to \$861,459, but dropped to \$709,894 in FY2007 and \$702,363 in FY2008 due to the recession. **Sales tax collections rose 30.23% from FY2008 to \$914,726 in FY2010. FY2011 sales tax revenues are estimated at this time to be approximately \$780,000 in FY2011 and FY2012.**

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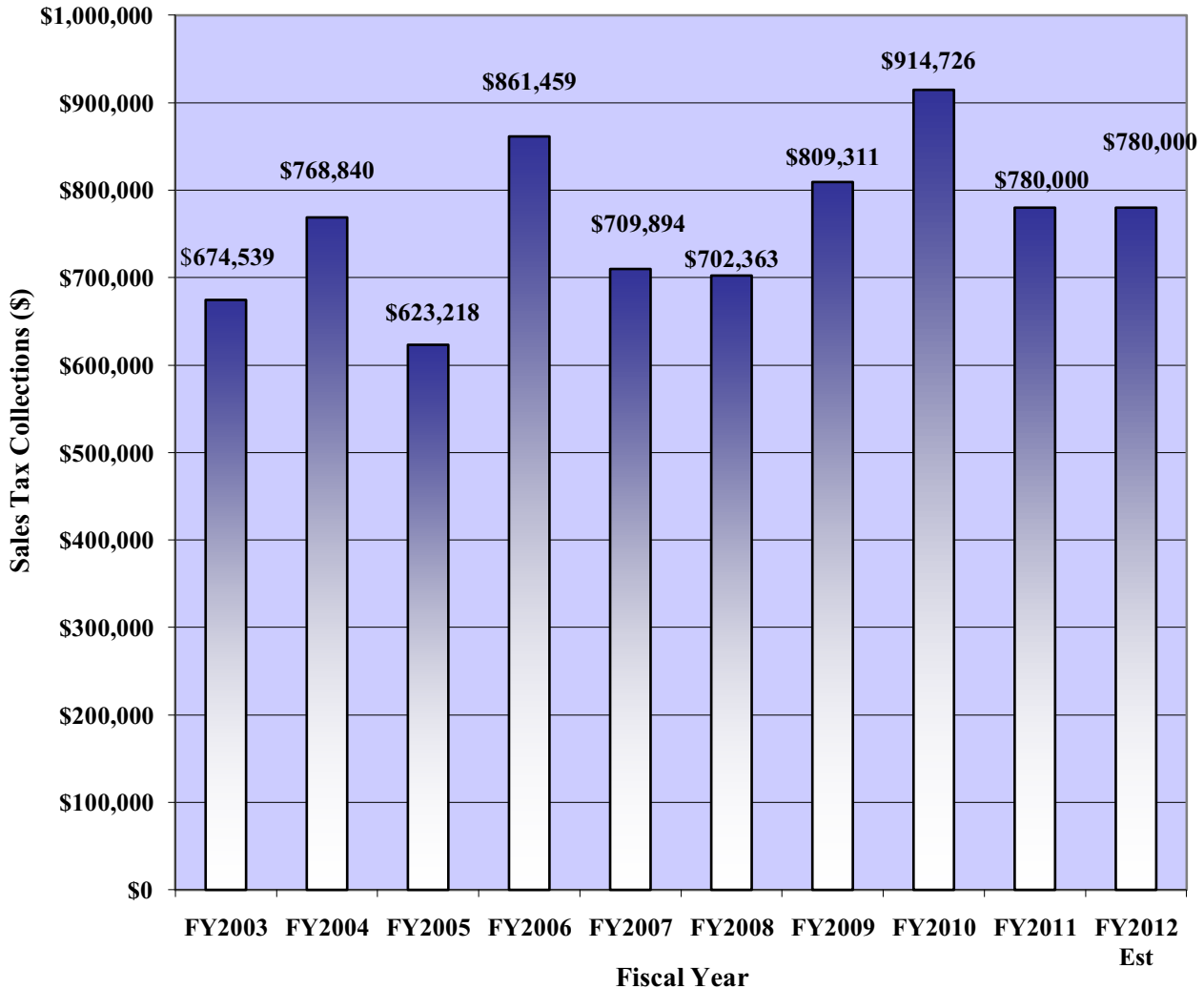
<sup>95</sup> ("Downtown Revitalization Feasibility Study for City of Twentynine Palms," CB Richard Ellis Consulting, October 2006, p. iii.)

**Figure 11  
City of Twentynine Palms  
Building Permit Fees  
FY2003-FY2012**



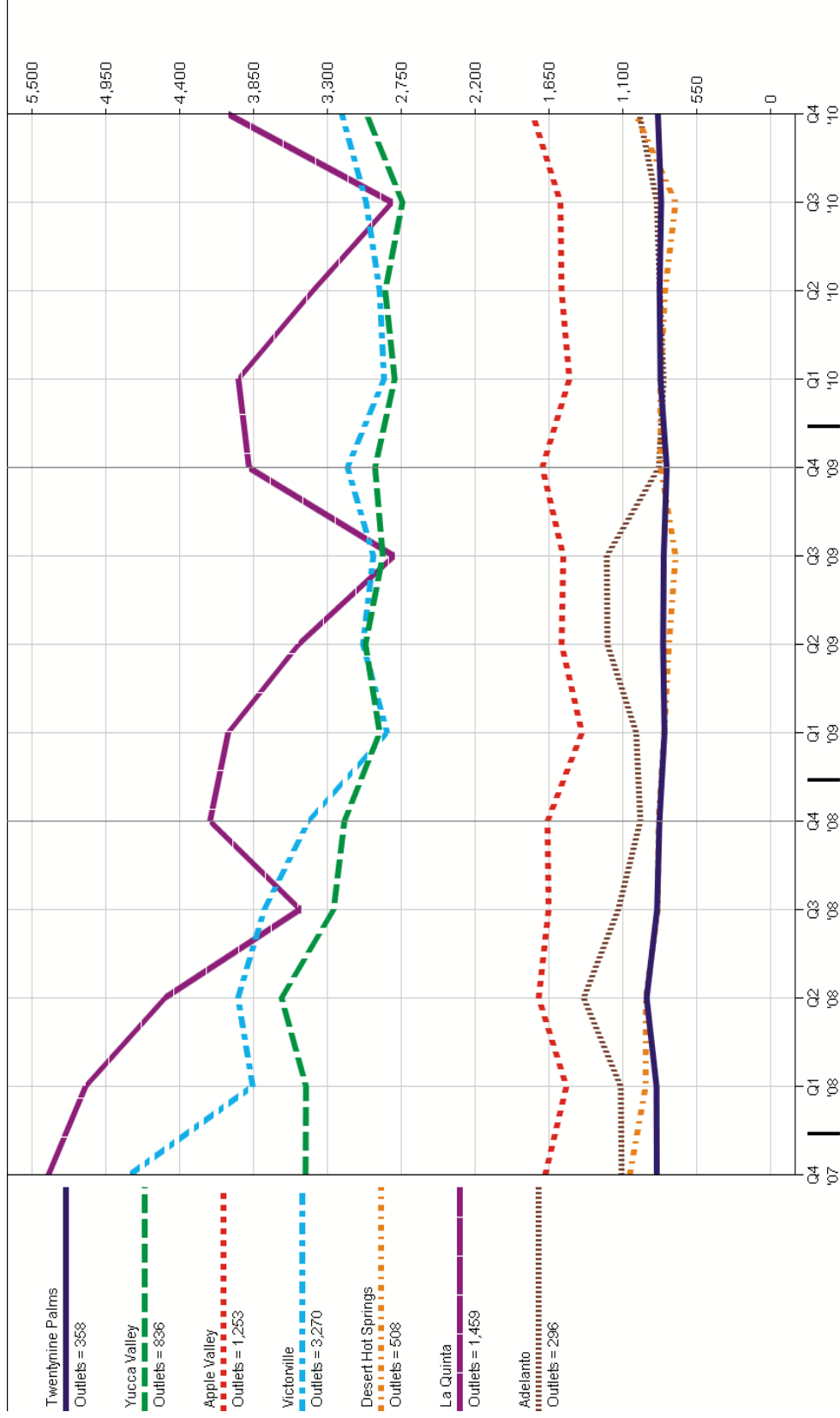
**This table shows the building permit fees collected by the City of Twentynine Palms from FY2003 through FY2012. Due to the slowdown in the commercial and residential construction, the City of Twentynine Palms projects that it will collect an estimated \$180,000 in building permit revenue in FY2012. Building permit revenues have fallen 64.6% from \$537,006 in FY2006 to \$190,000 in FY2011.**

**Figure 12**  
**City of Twentynine Palms**  
**Sales Tax Collections**  
**FY2003 - FY2012**



**This table shows that Twentynine Palms had a steady increase in sales tax collections from FY2003 through FY2010. Sales tax collections rose to \$674,539 in FY2003 and \$768,840 in FY2004. In FY2005, sales dipped due to the diversion of ¼ cent sales tax to the State of California for education (called triple flip). In FY2006, sales taxes again rose to \$861,459, but dropped to \$709,894 in FY2007 and \$702,363 in FY2008 due to the recession. Sales tax collections rose 30.23% from FY2008 to \$914,726 in FY2010. FY2011 sales tax revenues are estimated at this time to be approximately \$780,000 in FY2011 and FY2012.**

**Figure 13**  
**City of Twentynine Palms**  
**Historical Sales Tax Collection Per Resident**  
**FY2007-FY2010**



**Figure 13 compares the historical quarterly sales tax collected per resident among nearby cities. This chart shows that during the fourth quarter of 2010, Twentynine Palms collected \$835 per resident in sales tax. Adelanto collected \$974 per resident, Desert Hot Springs collected \$1,002 per resident, Apple Valley collected \$1,768 per resident, Yucca Valley collected \$3,005 per resident, Victorville collected \$3,189 per resident, and La Quinta collected \$4,036 per resident.**

**Figure 14**  
**City of Twentynine Palms**  
**Secured and Unsecured Property Assessed Values**  
**FY2000-FY2011**

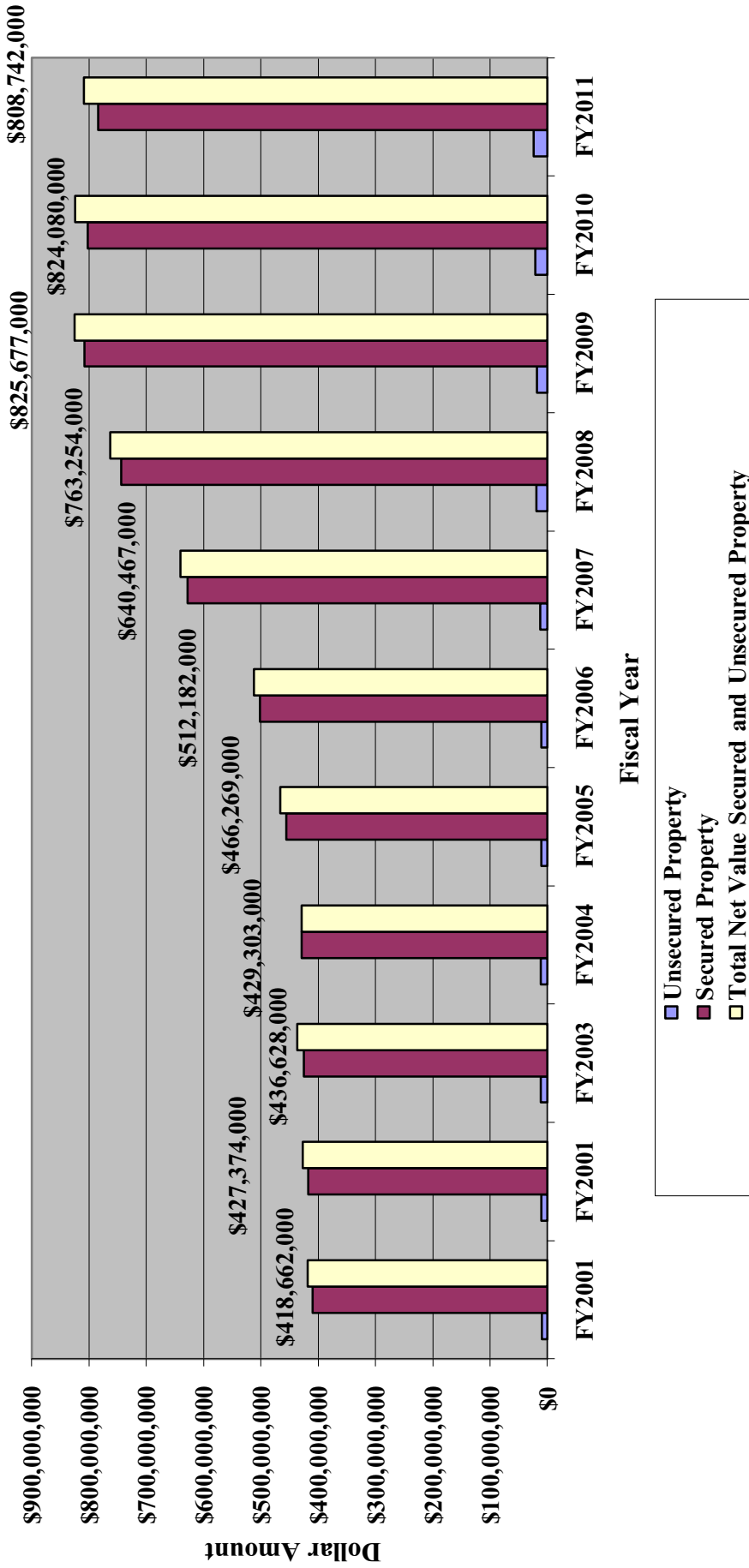
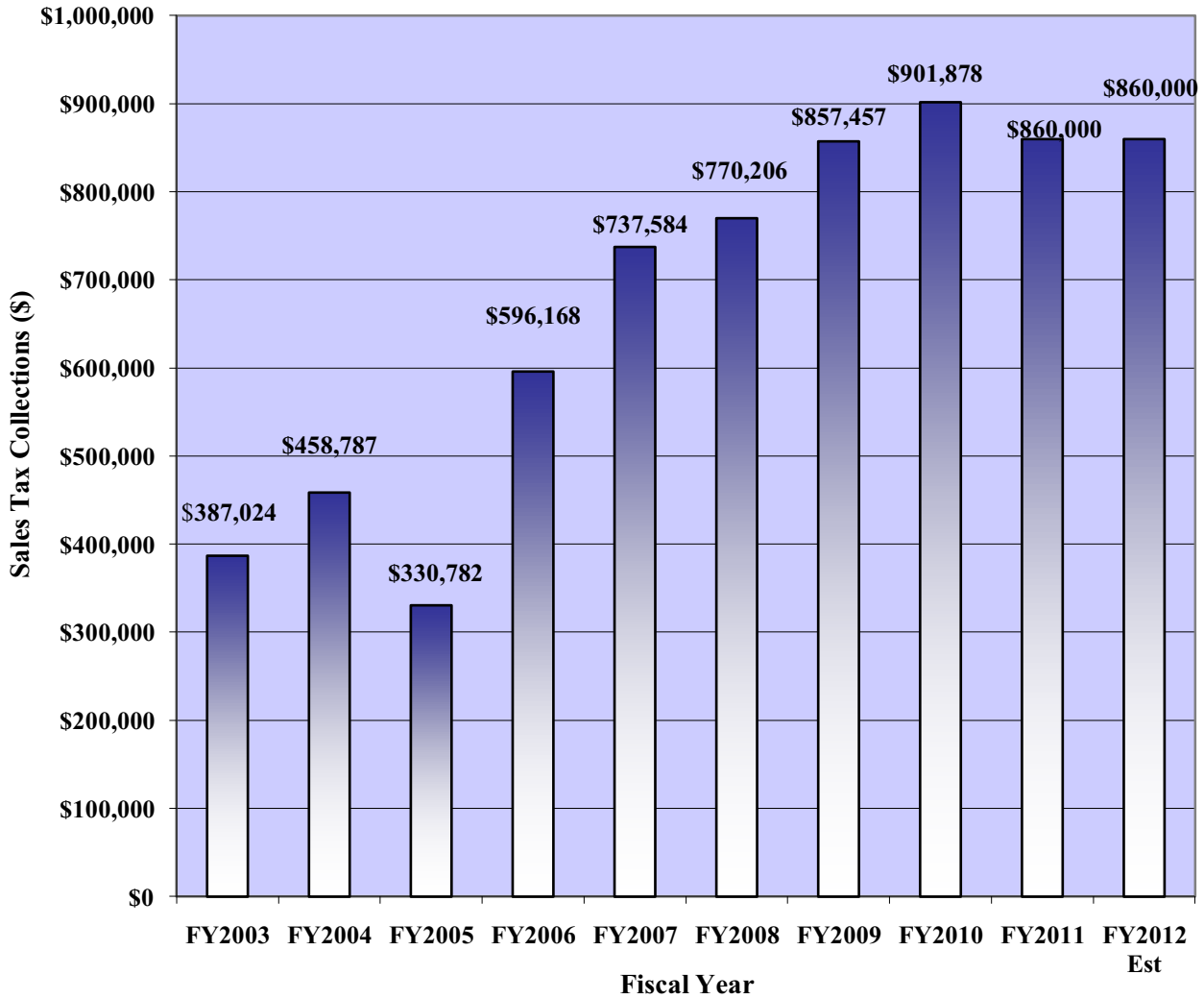


Figure 14 shows the increase in assessed values of secured and unsecured property from FY2001 to FY2011. Total property values increased 193% from \$418,662,000 in FY2001 to \$808,742,000 in FY2011. The total assessed value fell 2% from FY2010 to FY2011 resulting in a decrease in property tax revenue of \$36,500.

**Figure 15**  
**City of Twentynine Palms**  
**Transient Occupancy Tax (TOT) Collections**  
**FY2003 - FY2012**



**Transient Occupancy Taxes (TOT) rose \$131,672 from \$770,206 in FY2008 to \$901,878 during FY2010. Transient Occupancy Tax (TOT) collections have slowed and the City projects that it will collect approximately \$860,000 in FY2011. The City projects that FY2012 Transient Occupancy Taxes (TOT) will be the same as FY2011 at \$860,000.**

Figure 13 compares the historical quarterly sales tax collected per resident among nearby cities. This chart shows that during the fourth quarter of 2010, Twentynine Palms collected \$835 per resident in sales tax. Adelanto collected \$974 per resident, Desert Hot Springs collected \$1,002 per resident, Apple Valley collected \$1,768 per resident, Yucca Valley collected \$3,005 per resident, Victorville collected \$3,189 per resident, and La Quinta collected \$4,036 per resident.

**Transient Occupancy Taxes (TOT).** Cities may impose the transient occupancy tax (TOT) on persons staying 30 days or less in a hotel, inn, motel, tourist home, non-membership campground or their lodging facility. Cities may also levy a tax on the privilege of renting a mobile home located outside a mobile home park, unless such occupancy is for more than 30 days or unless the tenant is an employee of the owner. Under certain conditions a redevelopment agency may impose the tax. Rates are set at the city’s discretion and may include a specific amount as well as a percentage. (Please see Figure 15.)

The City’s transient occupancy tax (TOT) (hotel/motel room tax) established by a vote of the people is nine percent. (Title 3 Chapter 24 of the Twentynine Palms Municipal Code). **Transient Occupancy Taxes (TOT) rose \$131,672 from \$770,206 in FY2008 to \$901,878 during FY2010. Transient occupancy tax (TOT) collections have slowed and the City projects that it will collect approximately \$860,000 in FY2011. The City projects that FY2012 transient occupancy taxes (TOT) will be the same as FY2011 at \$860,000.**

**Property Tax Revenues**<sup>96</sup>. Figure 14 shows the changes in secured and unsecured property tax assessed values from FY2001 through FY2011. During the 11-year period, property tax assessed valuations increased 193% from \$418,662,000 in FY2001 to \$808,742,000 in FY2011. The total assessed value fell 2% from \$824,080,000 in FY2010 to \$808,742,000 in FY2011. **The recession, home foreclosures and unemployment have caused property tax collections to fall from \$1,872,433 in FY2008 to \$1,725,000 in FY2011. FY2012 property tax collections are projected to be the same as FY2011 at \$1,725,000.**

### **Proposition 42 Traffic Congestion Relief Revenues.**

**Ballot Initiative.** In 2002 the voters approved Proposition 42. This ballot measure dedicated the sales tax on gasoline to transportation programs. Funds were allocated on a 40/40/20 split with 40% of the money going to cities and counties (50/50 split), 40% to State transportation projects and 20% to transit systems.

**Use of Proposition 42 Funds.** Proposition 42 funds could be used only for street and highway pavement maintenance, rehabilitation, reconstruction and storm drainage repair. For Proposition 42 purposes, “maintenance” means patching, overlaying and sealing. Reconstruction includes overlaying, sealing or widening of the roadway to bring the roadway width to the desirable minimum pavement width consistent with accepted design standards for local streets and roads, but does not include widening for increasing the traffic capacity of a street or road.

**Maintenance of Effort (MOE).** In order to receive Proposition 42 allocations, cities had to be in compliance with the maintenance of effort provision (MOE) of the law. The maintenance of effort (MOE) provision requires cities to expend from their General Fund, in the budget year in which Proposition 42 monies were allocated, a defined amount of funds for transportation purposes. This amount had to be equal to or greater than the average transportation expenditures for FY1997, FY1998 and FY1999. At the end of each fiscal year, cities had to prove to the

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<sup>96</sup> When the Proposition 13 went into effect, the taxing agencies within San Bernardino County agreed on a distribution of the one percent among them. The City of Twentynine Palms was not incorporated at the time. Upon incorporation, the City negotiated with the county for a portion of the county allocation. Both entities agreed upon a City property tax allocation of 26.5% of the one percent.

California State Controller that they have spent the required maintenance of effort (MOE) monies. Any city that failed to do so must reimburse the State for the funds it received during the fiscal year.

**Proposition 42 Payments to Cities.** Proposition 42 allowed these funds to be transferred to the State General Fund and appropriated for non-transportation purposes during times when the State has a fiscal crisis. The funds were transferred to the State General Fund in FY2004 and FY2005. FY2006 was the first time since Proposition 42 passed that the \$1.3 billion in sales tax on gas was spent on transportation. Cities received \$136,102,000 in FY2006 and received \$219,997,755 during FY2007. Cities and counties received no local streets and roads maintenance funds from Proposition 42 in FY2008 pursuant to a formula in current law and under a longstanding agreement that provided cities and counties with local streets and roads funds in FY2002 and FY2003. However, under the allocation formula, cities received approximately \$266,467,000 during FY2009. **Twentynine Palms received \$242,402 in FY2009 and \$278,358 in FY2010 in Proposition 42 funds.**

**Proposition 42 Elimination Through 2010 Gasoline Sales Tax--Gasoline Excise Tax Swap.** On March 4, 2010, as part of a special budget session called by the Governor, the State Legislature passed ABx8 6 and ABx8 9, which contain provisions for a swap of States sales taxes on gasoline for a gasoline excise tax. The bills were signed by the Governor on March 22. Governor Schwarzenegger signed AB 70 on March 23, which is a clean up to ABX8 6 on March 23, 2010. **This legislation eliminated Proposition 42 funding for FY2011 and FY2012, and replaced it with additional gasoline excise tax allocations to cities and counties. The law included expressed legislative intent to fully replace City and County Proposition 42 state sales tax on gasoline with allocations from the new higher motor vehicle gasoline excise tax (HUTA) rate.**

**The FY2010 Gasoline Sales Tax Swap with Gasoline Excise Tax law.** Effective July 1, 2010 these new laws:

1. Repeal the state sales tax on gasoline. Local sales tax rates (1%) implemented pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law or the Transactions and Use Tax Law are not affected.
2. Increase the excise tax on gasoline by 17.3 cents and add an annual index that is intended to ensure the new excise tax keeps pace with the revenues expected from the sales tax on gas.
3. Increase the sales tax on diesel by 1.75% and allocate 75% to local transit agencies and 25% to state transit programs. The excise tax on diesel is reduced from 18 cents to 13.6 cents. Sales tax revenues from diesel must go to transit funding.

**In FY2011, the revenues were allocated as follows:**

1. First, state transportation debt service;
2. Second, \$54 million monthly set aside for future appropriation by the State Legislature (possibly to provide a future loan to the state General Fund under the currently flexible loan provisions of the Highway User Tax Account (HUTA);
3. Remainder allocated with 50% going to the State Transportation Improvement Program (STIP), and the



other 50% divided evenly between cities and counties using the current Highway User Tax (HUTA) Account formulas.

**Beginning in FY2012, the revenues were allocated as follows:**

1. First, to transportation debt service.
2. Second, divided with 44% to the State Transportation Improvement Program (STIP), 2% to State Highway Operation and Protection Program (SHOPP).
3. The remaining 44% split evenly between the cities and the counties using the current Highway User Tax Account (HUTA).

**FY2011 Highway User Tax Account (HUTA) Payment Delays.** The State Legislature also passed legislation that contained provisions to delay a variety of state payments to local agencies as a way to deal with anticipated state cash flow problems in FY2011. ABX5 8 allowed the state to delay a portion of the payments (\$50 million) of monthly Highway User Tax Account (HUTA) funds for the first nine months of FY2011 (July 2010 to March 2011) to be paid no later than April 28, 2011. The legislation contained an exemption for some agencies, including counties under 50,000 population and cities in those counties.

**Proposition 42 Allocations.** The law included expressed legislative intent to fully replace the local streets and roads funds cities and counties would have received under Proposition 42 state sales tax on gasoline with allocations from the new higher motor vehicle excise tax (HUTA) rate.

## **Revenue and Expenditure Forecasting**

Forecasting as used in this budget document refers to estimating the future values of revenues and expenditures. It provides an estimate of how much revenue will be available and the resources required to meet current service levels and programs over the coming fiscal year, along with the understanding of how the total financial program will be affected by demographic and economic forecasts driving these forecasts. The value of forecasts is in estimating whether, given assumptions about City financial policies and economic trends, the City will have sufficient resources to meet the resource requirements of ongoing, planned or mandated programs. In short, forecasting provides an estimate of the financial flexibility of the City, as well as insight into tax, revenue, and service options the City Council must address.

**Revenue Forecasts.** The City seeks to match revenue sources with the economic and/or demographic variables that most directly affect year-to-year changes in revenues. For example, City sales tax revenues will reflect forecasts related to taxable sales; whereas, revenue from building permits and plan checks will be tied to the expected trends in residential, commercial and industrial development. The City attempts to use as many revenue-related variables as possible in its forecasts to minimize the risks of overstating or understating revenues.

**The beginning point of revenue forecasts and projections will be the previous year's collections along with an analysis of the financial trends over the last several years.**

Revenue estimates will strive for accuracy by coming as close as possible to the actual outcome. However, forecasting sharp turns in the national, state and local economies is problematic. In addition, attempting to predict what the Governor and State Legislature will do with designated City revenues in their attempt to deal with the on-going State budget crisis is almost impossible. Revenue forecasting is not an exact science and at times relies upon the best professional judgment of the forecaster.

**Expenditure Forecasts.** Expenditure growth is most closely linked to two major factors: (1) inflation (including general inflation, adjustments to salaries and changes in benefit costs), and (2) financial policies related to the amount of new funding for new programs or for the expansion of existing programs. For certain expenditure categories (such as fuel and utilities), the City applies inflation factors that reflect the historical rate of price inflation in these categories to overall inflation.

### **Appropriation Limit.**

The appropriation limit imposed by Proposition 4 and Proposition 111 creates restrictions on the amount of revenue, which can be appropriated in any fiscal year. The limit is based on actual appropriations during the 1978-79 fiscal year, and is increased each year by a factor comprised of the change in population combined with the change in California per capita income. The only Fund subject to the limit is the General Fund. The Twentynine Palms Redevelopment Agency, Twentynine Palms Public Financing Authority<sup>97</sup> and certain revenues such as Enterprise Fund revenues, Special Revenue Fund revenues, Debt Service Fund revenues and inter-fund transfers are excluded from the appropriation limit. The State of California Department of Finance is mandated to provide the population and California per capita personal income changes data for local jurisdictions to calculate their appropriation limits. **Based on the data received from the California Department of Finance, Twentynine Palms appropriation limit is \$37,065,322.**<sup>98</sup> Twentynine Palms meets the requirements of the law during FY2012.

## **General Fund Summary**

The General Fund is the primary operating fund of the City. It is used to account for all financial transactions and resources of the general government except those required by law or regulation to be accounted for in another accounting fund. The City of Twentynine operates one General Fund and it is used to account for most tax-supported activities of the City of Twentynine Palms. Expenditures for such functions as administration, community development, building inspection, code enforcement, police, streets, parks, economic development and other similar functions are accounted for in the General Fund.

**This General Fund budget will provide the same level of municipal services while still holding down operating costs. Due to the uncertainties surrounding the state budget and the slowdown in the economy,**

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<sup>97</sup> The California Constitution Article XVI, Section 16, and Health and Safety Code, beginning with Section 33000, provide funding from local property taxes to promote redevelopment of blighted areas. Article XVI was approved by the voters in 1952, and therefore, the revenues it generates are not subject to the limitations imposed by the Gann Limit in Article XIII B of the California Constitution.

<sup>98</sup> Article XIII B of the California Constitution created by Proposition 4 passed by the voters in 1978, requires that local governments establish spending limits on funds raised through the proceeds of taxes. Proposition 4 established the 1978-79 fiscal year as the base year, limiting future spending from appropriation of taxes to the base year amount, adjusted by the increase in population and the cost of living. Senate Bill 1352, Chapter 1205, 1980, statutes adds Revenue and Taxation Code, Section 7910 which requires each local government to establish its appropriation limits by resolution each year at a regularly scheduled meeting.

**the FY2012 budget year will be conservative and cautious.** General Fund revenues remain flat or have declined over the last three years. Total General Fund revenues are projected to be \$7,885,000. This is a \$528,423 reduction from FY2009 when General Fund revenues were \$8,413,423.

The total assessed property value fell 2% from \$824,080,000 in FY2010 to \$808,742,000 in FY2011. The recession, home foreclosures and unemployment have caused property tax collections to fall from \$1,872,433 in FY2008 to \$1,725,000 in FY2011. **FY2012 property tax collections are projected to be the same as FY2011 at \$1,725,000.**

Twentynine Palms' property taxes under the Vehicle License Fee (VLF) property tax "swap" grew from \$2,454,926 in FY2008 to \$2,754,153 in FY2009. The recession has caused Property Tax In-Lieu of Vehicle License Fees (VLF) to remain relatively flat at \$2,748,864 in FY2010 and are projected to be \$2,697,000 in FY2011 and \$2,700,000 in FY2012.

The slowdown in residential construction and sales of existing homes reduced the real property transfer tax from \$35,808 in FY2008 to \$19,461 in FY2010. Real estate transfer tax collections (primarily from the sale of foreclosed property) will increase revenues to \$50,000 in FY2011. The City projects that real property transfer tax collections will be approximately \$40,000 during FY2012. The City of Twentynine Palms does not anticipate any major change in the value of state-assessed property within the City and projects that the utility unitary tax will be flat at \$96,000 during FY2012.

**Sales tax collections rose 30.23% from FY2008 to \$914,726 in FY2010. FY2011 sales tax revenues are estimated at this time to be approximately \$780,000 in FY2011 and FY2012.** The City projects that property taxes in lieu of sales taxes (Triple Flip) will be flat at \$295,000 during FY2012. Transient Occupancy Taxes (TOT) rose \$131,672 from \$770,206 in FY2008 to \$901,878 during FY2010. Transient occupancy tax collections are down and the City projects that it will collect approximately \$860,000 in FY2011. **The City projects that FY2012 transient occupancy taxes (TOT) will be the same level as FY2011 at \$860,000.** Revenues from electric, gas, waste management and cable television franchise fees are not expected to increase during FY2012. The City anticipates that it will collect \$525,000 in franchise fee revenues during the next fiscal year.

Business license fee revenues are expected to be the same in FY2012 as they were in FY2011 at \$38,000. Twentynine Palms' Vehicle License Fees (VLF) under the Vehicle License Fee (VLF) property tax "swap" are projected to be down from \$124,320 in FY2008 to \$75,000 in FY2011 and FY2012. Building permit fees increased dramatically from \$33,233 in FY2003 to \$537,006 in FY2006. The collapse in housing construction in Twentynine Palms and throughout California has resulted in a drop of building permit revenues to \$63,761 in FY2009. **Since that time, building construction has made some recovery and building permit revenues in FY2010 were \$224,415. Building permit revenues are expected to be \$190,000 in FY2011 and \$180,000 in FY2012.**

The City received \$23,440 in state booking fee reimbursements for FY2007. However, no booking fees were received in FY2008, FY2009, FY2010 and FY2011 due to the State budget crisis and subsequent cuts by the State Legislature. The City anticipates no booking fee reimbursements during FY2012. Assembly Bill 1913 or California Citizen Option for Public Safety Grant (COPS) program provides a minimum of \$100,000 to eligible front line law enforcement agencies. **The City of Twentynine Palms will receive \$103,000 in state COPS funding during FY2012, but there will be no state-mandated cost reimbursements during FY2012.** The City will transfer \$48,000 from the Traffic Safety Special Revenue Fund to the General Fund.

Department expenditures will remain conservative during FY2012. Capital spending will be limited primarily to grants and one-time intergovernmental revenues. One-time revenues will not be used for on-going operating costs. Total General Fund spending will be \$7,884,900. (Please see Figure 39.) The General Fund Unrestricted Fund Balance is projected to increase by \$100 to \$11,084,069 on June 30, 2012. This Unrestricted Fund Balance is 140% of total annual General Fund expenses.

# Special Revenue Funds Summaries

## Gasoline Tax Special Revenue Fund.

This Fund is used to account for revenues and the related expenditures limited to a variety of highway and transportation purposes. Revenues are derived from Sections 2103, 2105, 2106, 2107 and 2107.5 of the California Streets and Highways Code. These revenues come from gasoline taxes placed on motor vehicle fuels.

Gasoline tax revenue from Sections 2103, 2105, 2106, 2107 and 2107.5 of the State Streets and Highways Code are projected to be flat at \$830,000. Interest revenues are projected to be \$500 and Proposition 42 replacement funds under the Gasoline Sales Tax—Gasoline Excise Tax swap are projected to be \$117,400.

**Total resources available for appropriation are projected to be \$958,900.**

The City will spend \$681,700 for personnel services and \$181,600 for maintenance and operation expenses including \$13,000 for road maintenance materials, \$24,500 for equipment lease and maintenance, \$34,000 for general liability insurance, \$55,000 for street lighting and \$25,000 to install backup batteries on City traffic signals. **Total expenses for the Gasoline Tax Special Revenue Fund during FY2012 will be \$863,300.** The Fund Balance will grow \$120,660 from \$508,526 on June 30, 2011 to \$629,126 on June 30, 2012.

## Bikeways and Sidewalks Article 3 Special Revenue Fund.

The City does not anticipate that it will deposit any Bikeways and Sidewalks Article 3 allocations from the revenues collected as part of the Transportation Development Act (TDA). It will use \$95,700 from the Fund Balance during FY2012. The use of \$95,700 in FY2012 from the Bikeways and Sidewalks Article 3 Special Revenue Fund Balance represents the taking of prior year's accumulated fund surplus and appropriating it for expenditure in FY2012. **Total resources available for FY2012 are \$95,700.**

Twentynine Palms will transfer its entire fund balance to other funds during FY2012. \$15,000 will be transferred to the General Capital Projects Fund to complete the Collins Bike Path. Another \$80,700 transferred to the AB 2766 Motor Vehicle Surcharge Special Revenue Fund during the fiscal year. **Total funds transferred out during FY2012 are \$95,700.** There will be no City funds in the Bikeways and Sidewalks Article 3 Special Revenue Fund Balance on June 30, 2012.

## AB 2766 Motor Vehicle Surcharge Special Revenue Fund.

The City anticipates that it will receive \$18,000 in grants to upgrade its heavy-duty diesel equipment to reduce nitrogen (NOx), particulate matter (PM) and reactive organic gases (ROG). Interest earnings are projected to be \$250 and another \$80,700 will be transferred from the Bikeways and Sidewalks Article 3 Special Revenue Fund. **Total FY2012 resources available for appropriation will be \$98,950.**

**Twentynine Palms will spend \$15,300 to install diesel engine kits on City diesel powered trucks and equipment to reduce air pollution and improve air quality during FY2012.** The AB 2766 Motor Vehicle Surcharge Fund Balance will increase to \$83,650 on June 30, 2012.

### **Transportation Development Act (TDA) Special Revenue Fund.**

The City will continue to see a continued reduction in Transportation Development Act (TDA) Article 8 funds. Twentynine Palms has been informed that it will receive \$250,000 from the San Bernardino Associated Governments (SANBAG) during FY2012. In addition, the City will transfer \$10,000 from the Risk Management Internal Service Fund to the Transportation Development Act (TDA) Special Revenue Fund for streets and roads. Another \$1,500 will be earned in interest revenue. **Total financial resources available for appropriation are \$261,500.**

**The City will spend \$220,000 in Transportation Development Act (TDA) funds during FY2012.**

This includes \$20,000 for road maintenance and \$200,000 to slurry seal City streets. The Transportation Development Act (TDA) Fund Balance will increase from \$226,089 on July 1, 2011 to a projected \$267,589 on June 30, 2012.

### **Proposition 42 Traffic Congestion Relief Special Revenue Fund.**

In 2002 the voters approved Proposition 42. This ballot measure dedicated the sales tax on gasoline to transportation programs. Funds were allocated on a 40/40/20 split with 40% of the money going to cities and counties (50/50 split), 40% to state transportation projects and 20% to mass transit systems.

On March 4, 2010, as part of a special budget session called by the Governor, the State Legislature passed ABx8 6 and ABx8 9, which contain provisions for a swap of State sales taxes on gasoline for a gasoline excise tax. The bills were signed by the Governor on March 22. On March 23, 2010 Governor Schwarzenegger signed AB 70, which is a clean up to ABx8 6. This legislation eliminated Proposition 42 funding for FY2011, and replaced it with additional gasoline excise tax allocation to cities and counties. The law included expressed legislative intent to fully replace City and County Proposition 42 State sales tax on gasoline with allocations from the new higher motor vehicle gasoline excise tax (HUTA) rate. **There will be no Proposition 42 revenues during FY2012, and the City intends to close out this Accounting Fund in FY2012.**

**The City is appropriating \$337,400 in Proposition 42 Fund Balance during FY2012.** The use of \$337,400 in fund balance represents the taking of prior year's accumulated fund surplus and appropriating it for expenditure in FY2012. **The City will transfer \$117,400 of the Proposition 42 Special Revenue Fund Balance to the Gasoline Tax Special Revenue Fund and \$220,000 from fund balance to the General Capital Projects Fund.** Since this accounting fund is being closed out at the end of FY2012, there will be no ending fund balance on June 30, 2012.

### **Traffic Safety Special Revenue Fund.**

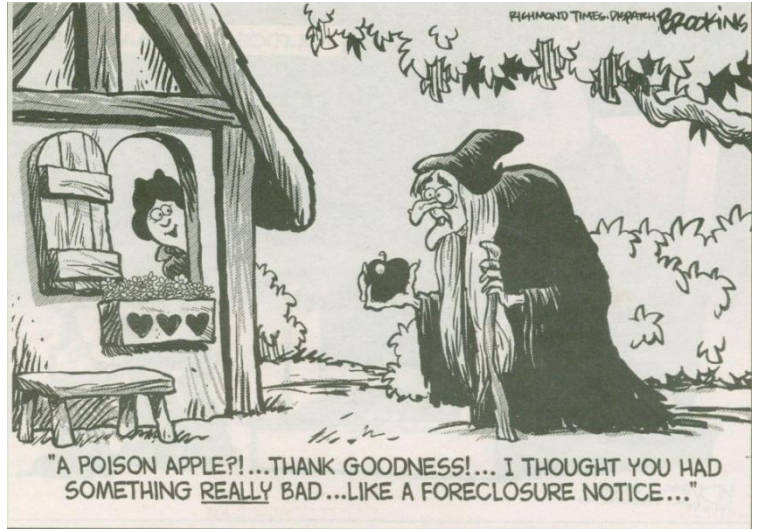
The City anticipates collecting \$90,000 from vehicle code violations and another \$2,000 in interest payments. **Total resources available during FY2012 for appropriation are \$92,000.** The City intends to enhance traffic safety and reduce accidents by spending \$31,000 for the maintenance of traffic lights and signals, \$10,000 on street striping and \$3,000 on traffic engineering. This fund will also transfer \$48,000 to the General Fund. **Total expenditures for the fiscal year will be \$92,000.** The Traffic Safety Special Revenue Fund Balance will be \$191,701 at the beginning of the fiscal year and at the end of the fiscal year on June 30, 2012.

## Community Development Block Grant (CDBG) Special Revenue Fund.

Community Development Block Grant (CDBG) funds may only be used to eliminate blight, meet an urgent need or assist low- and moderate-income residents. The City received \$341,000 during FY2011 in Community Development Block Grant (CDBG) funds.

**During FY2012, the City will spend \$75,000 to rebuild and upgrade the well in Luckie Park and \$38,060 to upgrade the City swimming pool to meet new San Bernardino County Health Department regulations. It will combine these funds with \$31,940 in the General Capital Projects fund to complete \$70,000 in upgrades to the swimming pool.**

There will be no fund balance in the Community Development Block Grant (CDBG) Program Special Revenue Fund at the beginning of FY2012 or at the end of FY2012.



## Lighting and Landscape Assessment Districts Special Revenue Fund.

The mission of the Lighting and Landscape Assessment Districts Special Revenue Fund is to account for all activities, revenues, expenditures, assets and liabilities in providing maintenance, servicing, and operation of landscape improvements, median strip improvements, parks improvements, graffiti removal and associated activities located within the public right-of-way and dedicated landscape easements in the City of Twentynine Palms Lighting and Landscape Assessment Districts.

The annual Engineer's Report describes the District, any annexations, or changes to the District, and the proposed assessments for FY2012. The proposed assessments are based on the historical and estimated cost to maintain the improvements that provide a direct and special benefit to properties within the District. The cost of improvements and the annual levy includes all expenditures, deficits, surpluses, revenues and reserves. Each parcel is assessed proportionately for only those improvements provided and for which the parcel receives benefit. The word "parcel" refers to an individual property assigned its own assessment parcel number by the San Bernardino County Assessor's Office. San Bernardino County uses assessment parcel numbers and specific fund numbers to identify on the tax roll properties assessed for special benefit assessments.

Based on the Engineer's report and the assessments that will be levied by the City Council, the Lighting and Landscape Districts Special Revenue fund will provide \$30,160 in homeowner assessments and \$240 in interest payments. **Total financial resources available for appropriation during FY2012 are \$30,400.**

**FY2012 expenditures for the Lighting and Landscape Districts will be \$33,800, including \$10,000 for water and \$18,000 in contract costs to maintain the common landscape areas.** The Lighting and Landscape Districts Special Revenue Fund Balance will be reduced by \$3,400 to \$45,551 on June 30, 2012.

### **Public Access TV Special Revenue Fund.**

FY2012 projected revenues from the 1% franchise fee collected from gross cable television billings is projected to be \$10,000. In addition, the City is expected to earn \$500 in interest earnings. **Total financial resources available during FY2012 are \$10,500.**

**The City will spend \$7,000 during FY2012** including \$5,000 to video tape the meetings and \$2,000 for electronic equipment. The Public Access TV Special Revenue Fund Balance will increase by \$3,500 from \$88,823 on June 30, 2011 to \$92,323 on June 30, 2012.

### **Landfill/Land Use Special Revenue Fund.**

The mission of the Landfill/Land Use Special Revenue Fund is to account for solid waste revenues including grant revenues, and landfill tipping fee revenues from haulers outside the county as well as expenses for abandoned vehicle abatement, dangerous building abatement, graffiti removal, illegal dumping, recycling programs, hazardous household waste, litter reduction and the Mojave Desert and Mountain Integrated Waste Joint Powers Authority.

Twentynine Palms anticipates that it will receive a \$5,000 grant from the California Department of Conservation for recycling plastic containers. This grant comes from the California Redemption Value (CRV) that is charged by retailers on all beverage containers. It will also receive \$500 in interest revenue and \$50,000 in Article 19 fees from San Bernardino County landfills. **Total resources available for appropriation are \$55,800.**

**The City will spend \$101,500 on solid waste programs** including \$500 for abandoned vehicle abatement, \$5,000 in dangerous building abatement, \$10,000 to cleanup illegal dumping, \$10,000 for recycling programs, \$40,000 for the household hazardous waste program, and \$5,000 in plastic container litter reduction. The City will also contribute \$30,000 to the Mojave Desert and Mountain Integrated Waste Joint Powers Authority. The Landfill/Land Use Special Revenue Fund Balance will be reduced from \$48,683 on June 30, 2011 to \$2,983 on June 30, 2012.

## **Internal Service Funds Summaries**

### **Risk Management Internal Service Fund.**

The City operated a Risk Management Internal Service Fund to keep track of revenues and expenditures related to the City's liability, workers' compensation, property and bond insurance coverage. The Risk Management Internal Service Fund would pay insurance premiums and then charge each accounting fund a portion of the premium. **Beginning in FY2012, to simplify the City's accounting system, insurance premiums are charged directly to each Accounting Fund and this Accounting Fund will be discontinued. The City will appropriate \$100,500 from the Risk Management Internal Service Fund Balance for transfer to other accounting funds.** This use of \$100,500 in FY2012 from the Risk Management Internal Service Fund Balance represents the taking of prior year's accumulated fund surplus and appropriating it for expense in FY2012.

The City will transfer \$74,000 to the General Capital Projects Fund and \$26,500 to the Gasoline Tax Special Revenue fund, Transportation Development Act (TDA) Special Revenue and the Twentynine Palms Redevelopment Agency. There will be no fund balance in the Risk Management Internal Service Fund on June 30, 2012.

### **Equipment Purchase Internal Service Fund.**

The Purpose of the Equipment Purchase Internal Service Fund was to account for the financial resources used to purchase and dispose of cars, trucks, heavy equipment and rolling stock used in City operations and to provide City services. Departments would pay into this accounting fund each year whether or not they bought new vehicles, heavy equipment or rolling stock. When the department needed to purchase new equipment they could draw upon the funds that had accumulated in this accounting fund. **This accounting fund is being discontinued in FY2012 and the purchase of vehicles and heavy equipment will be accounted for in the appropriate Special Revenue Fund or Capital Projects Fund.** No revenues are being deposited into this Accounting Fund. The City will transfer \$35,900 to the General Capital Projects Fund to purchase equipment. The Equipment Purchase Internal Service Fund will end the fiscal year on June 30, 2012 with no fund balance.

## **Capital Projects Funds Summaries**

### **General Capital Projects Fund.**

**The General Capital Project Fund's total revenues for FY2012 are projected to be \$962,900,** including a \$245,000 Transportation Development Act (TDA) Article 3 Pedestrian Bicycle grant obtained through the San Bernardino County Associated Governments (SANBAG). The balance of the General Capital Projects Fund revenues come from transfers from other funds including \$220,000 from the Proposition 42 Traffic Congestion Fund, \$74,000 from the Risk Management Internal Service Fund, \$15,000 from the Article 3 Capital Projects Fund, \$35,000 from the Equipment Replacement Internal Service Fund and \$373,000 from the General Fund.

During FY2012, Twentynine Palms will spend \$100,000 for an update to the 2008 Wastewater Treatment Plant Joint Use Study, \$50,000 for gateway signs, \$45,000 for a new animal control truck, \$8,000 for a baseball field groomer, \$200,000 to construct 0.25 miles of road to connect Encelia Avenue from Sunnyslope Avenue to Two-Mile Road, \$15,000 for the Collins Bike Path, \$80,000 to install underground electrical utilities at Knott's Sky Park, \$20,000 to rebuild the flashing crosswalk at Highway 62 and Tamarisk, \$15,000 to slurry seal the Community Center parking lot, \$245,000 to construct sidewalks in the vicinity of Oasis Elementary school, \$90,000 for hardware and software upgrades, \$32,000 to upgrade the swimming pool at Luckie Park, \$20,000 for mural replacement or other public art and \$25,000 for a July 4 fireworks display.

**Total expenditures are projected to be \$945,000.** The fund balance in the General Capital Projects Fund is projected to be \$17,900 on June 30, 2012.

### **Curb, Gutter and Sidewalk Development Impact Fees Capital Projects Fund.**

Twentynine Palms allows residential, commercial and industrial developers to pay into a special accounting fund the cost of curb, gutter and sidewalk in situations where the location, geography or other factors preclude the installation of these off-site improvements at the time of development. Monies collected from this accounting fund are used exclusively to install these improvements. These development impact fees may not be used to fund salaries and benefits or to pay for on-going maintenance and operation costs.

The City anticipates collecting \$40,000 in curb, gutter and sidewalk development impact fees during FY2012. In addition, \$1,325,000 in curb, gutter and sidewalk impact fees will be transferred from the General

Fund to the Curb, Gutter and Sidewalk Development Impact Fees Capital Projects fund. **Total financial resources available for appropriation in FY2012 are \$1,365,000.**

Twentynine Palms will spend \$450,000 during FY2012 to install curb, gutter and sidewalk along National Park Drive from Highway 62 to the Joshua Tree National Park Headquarters. The City will also spend \$106,000 to match the \$200,000 in Measure I funds and a \$245,000 Transportation Development Act (TDA) Article 3 Grant from SANBAG for the construction of new sidewalks near Oasis Elementary School. Another \$500,000 will be set aside for sidewalk construction in the downtown area at a location to be determined later by the City Council. **Total FY2012 spending in the Curb, Gutter and Sidewalk Development Impact Fees Capital Projects Fund will be \$1,056,000.** The Fund Balance on June 30, 2012 will be \$309,000.

### **Fire Development Impact Fees Capital Projects Fund.**

The mission of the Fire Development Impact Fees Capital Projects Fund is to account for all development impact fee revenues and expenditures for the construction and improvement of public fire protection buildings and facilities as well as the purchase of equipment needed for new development pursuant to the State Mitigation Fee Act (Government Code 66000 *et. seq.*).

**Revenues are projected to be \$40,000 based on the City issuing the historic number of commercial and single-family residential building permits during FY2012.** No interest is projected because the Fire Development Impact Fee Capital Projects Fund has a negative fund balance due to the purchase of the fire ladder truck during FY2011. **Fire development impact fees collected during FY2012 will be used to amortize the debt for the fire ladder truck.** The Fire Development Impact Fee Capital Projects Fund Balance will be reduced from a negative \$300,000 to a negative \$260,000 on June 30, 2012.

### **Combined Measure I Capital Projects Fund.**

The Combined Measure I Capital Projects Fund accounts for all activities, revenues and expenditures related to Twentynine Palms' allocation of Measure I half-cent retail transaction and use tax to construct, repair, rehabilitate and maintain streets, roads, bridges, traffic control devices, sidewalks, bike lanes and other transportation facilities.

The City has received approval from the San Bernardino County Associated Governments (SANBAG) for \$600,000 in local distribution and \$200,000 in discretionary Measure I funds. In addition, Twentynine Palms will use \$1,653,800 from the Combined Measure I Fund Balance. The use of \$1,653,800 in FY2012 from the Combined Measure I Capital Projects Fund Balance represents the taking of prior year's accumulated fund surplus and appropriating it for expenditure in FY2012. **Total Measure I resources available for FY2012 are \$2,469,800.**

Twentynine Palms will spend \$1,718,000 for street construction and reconstruction projects and \$751,800 for the City Congestion Management Program, street and crosswalk repair and advanced seal projects. **Total FY2012 expenditures will be \$2,469,800.** The Combined Measure I Capital Projects Fund Balance will be reduced to \$1,694,672 on June 30, 2012.

# Twentynine Palms Redevelopment Agency Special Revenue Funds Summary

## Redevelopment Agency Capital Projects Fund.

The mission of the Twentynine Palms Redevelopment Agency Capital Projects Fund is to account for all activities, revenues, expenditures, assets and liabilities for the purpose of securing commercial and industrial development for job creation and revitalization of blighted residential, commercial or industrial areas in the City of Twentynine Palms.

**The Twentynine Palms Redevelopment Agency Capital Projects Fund revenues are projected to be \$2,261,500 during FY2012.** Revenues will include \$4,500 transfer from the Risk Management Internal Service Fund, a \$250,000 transfer from the Redevelopment Agency Debt Service Fund, \$4,000 in interest income and the use of \$2,003,000 from the Redevelopment Agency Capital Projects Fund Balance. The use of \$2,003,000 in FY2012 from the Redevelopment Agency Capital Projects Fund Balance represents the taking of prior year's accumulated fund surplus and appropriating it for expenditure in FY2012. **Total financial resources to be appropriated from all revenue sources during FY2012 are \$2,261,500.**

The City and the Redevelopment Agency will need to focus its resources (especially with regard to the 2011 bond proceeds) to eliminate blight, create jobs and transform and revitalize the downtown. The City will spend \$25,000 on marketing and business promotion and another \$50,000 on other economic development efforts from the Redevelopment Agency. These funds will be combined with \$90,000 tourism advertising budget and the \$25,000 business recruitment and promotion budget in the General Fund economic development budget. Funds will be spent in accordance with a marketing plan developed by elected officials, the Chamber of Commerce, the Innkeepers Association and other local businesses and interested stakeholders.

In addition to marketing the downtown, the Redevelopment Agency will spend \$31,000 to complete the Redevelopment Agency's portion of the General Plan, or to update the Downtown Specific Plan, and \$7,000 to purchase new accounting software.

Redevelopment Agency Capital projects also includes \$285,000 to eliminate abandoned, dangerous and blighted buildings, \$300,000 to develop and implement a property improvement program to assist business owners, \$25,000 for sidewalk repairs, \$750,000 for Project Phoenix, \$25,000 for a geothermal study and \$125,000 for projects to be designated at a later date by the City Council.

The Redevelopment Agency Capital Projects Fund will also combine \$300,000 of its money with \$200,000 from the Measure I Capital Projects Fund to complete the environmental document, engineering and construction of the first phase of the curb, gutter and sidewalk along Highway 62 from Encelia Avenue to Split Rock Avenue. **Total Redevelopment Agency Capital Projects Fund spending during FY2012 will be \$2,261,500. The Redevelopment Agency Capital Projects Fund Balance will be reduced from \$7,356,993 on June 30, 2011 to \$5,353,993 on June 30, 2012.**

## Redevelopment Agency Low- and Moderate-Income Housing Special Revenue Fund.

The purpose of the Low- and Moderate-Income Housing Special Revenue Fund in the Twentynine Palms Redevelopment Agency is to account for all activities, revenues, expenditures, assets and liabilities used for increasing or improving housing for low- and moderate-income households.

**The Twentynine Palms Redevelopment Agency Low- and Moderate-Income Housing Special Revenue Fund revenues and use of fund balance during FY2012 are projected to \$2,163,000.** This includes \$387,000 in tax increment funds, \$12,000 in interest income, \$1,000 transfer from the Risk Management Internal Service Fund and \$1,763,000 from the Redevelopment Agency Low- and Moderate-Income Housing Special Revenue Fund Balance. The use of \$1,763,000 in FY2012 from the Redevelopment Agency Low- and Moderate-Income Housing Fund Balance represented the taking of prior year's accumulated fund surplus and appropriating it for expenditure in FY2012.

Expenditures in the Twentynine Palms Redevelopment Agency Low- and Moderate-Income Housing Fund will include \$32,000 for personnel services, \$31,000 for maintenance and operations expenses and \$200,000 for debt service payments. \$1,900,000 is reserved for a future low- and moderate-income housing project to be determined at a later date by the City Council. **Total FY2012 expenditures are \$2,163,000.** The Redevelopment Agency Low- and Moderate-Income Housing Special Revenue Fund Balance will be decreased from \$4,781,798 on July 1, 2011 to \$3,018,798 on June 30, 2012.

### **Redevelopment Agency Debt Service Fund.**

The Twentynine Palms Redevelopment Agency Debt Service Fund tax increment revenues during FY2012 are projected to be \$1,550,000. Interest revenues are projected to be \$10,000 and \$293,000 will be taken from the Redevelopment Agency Debt Service Fund Balance. The use of \$293,000 in FY2012 in Redevelopment Agency Debt Service Fund Balance represents the taking of prior year's surplus and appropriating it in FY2012. **Total funds available for appropriation during FY2012 are \$1,853,000.**

Expenditures in the Twentynine Palms Redevelopment Agency Debt Service Fund include \$388,000 in pass through payments to other taxing entities, \$99,000 in Education Revenue Augmentation Fund (ERAF) payments to the State of California, \$25,000 in San Bernardino County administrative charges for the collection of property tax, \$250,000 transfer to the Redevelopment Agency Capital Projects Fund, \$50,000 in debt interest payments and \$1,041,000 in debt principal payments. **Total expenditures are projected to be \$1,853,000.** The Redevelopment Agency Debt Service Fund Balance is expected to decrease from \$2,262,180 on July 1, 2011 to \$1,969,180 on June 30, 2012.



## **Conclusion**

**This annual budget is designed to be a financial plan, policy document, operations guide and communications medium.** It meets the highest national standards set forth by the Government Finance Officers Association of the United States and Canada. It is a conservative road map for the coming year and will require

Careful management to ensure that spending is contained within the limits established by the City Council. The City Council, City Manager and department heads are committed to providing the highest level of municipal services for the least cost.

The preparation of the annual budget is an arduous task. Appreciation is extended to Ron Peck, Darla Holguin, Cindy Keniry, Cindy Villescas, Richard Pedersen, and all of the department heads and other staff members for their contributions.

This budget is submitted for your careful review and to make any changes or alteration as you see appropriate to meet the goals and objectives of the City Council and the desires of the citizens of the community. We all look forward to serving you and the citizens of the City of Twentynine Palms in the coming year.

Respectfully submitted,

*Richard N. Warne*

Richard N. Warne  
City Manager

### **Downtown Twentynine Palms--1940's**

