

TO: City Council

FROM: James L. App, City Manager
Jim Throop, Administrative Services Director

SUBJECT: Unfunded State Mandates

DATE: July 1, 2014

NEEDS: For the City Council to consider sending the League of Cities a request for legislation that would require the State of California pay all outstanding claims before requiring new mandates for the cities.

Facts:

1. An unfunded mandate is a statute or regulation that requires a local government to perform certain actions, with no funding provided to fulfill the requirements.
2. Under Dillon's Rule (see footnote), legislation has stipulated that local governments are administrative arms of the State and can be ordered to carry out state programs or policies (mandates).
3. Shifting of costs from the State to cities accelerated in the 1990's with the passage of the Educational Revenue Augmentation Funds (ERAF), which transferred local revenues to schools.
4. AB1600 was passed that stipulated that service fees must cover only the costs of services and nothing more, so that cities could not attempt to submit additional claims above the actual costs of the mandated services.
5. There is no legislation that states when the State must pay back the cities for the costs of the mandates.
6. Currently the LAO estimates \$1.9 Billion is owed to local governments.
7. The State owes the City of Paso Robles approximately \$512,000 in outstanding mandate claims, with some claims dating back to FY2002.

ANALYSIS &
CONCLUSION: The State has the ability to force mandates on cities, as local governments are deemed to be an administrative 'arm' of the State (Dillon's Rule).

These mandates are to be repaid by the State to the cities, but there is no legislation that states a time-specific on repayment. As an example, the City of Paso Robles has outstanding claims for "Misdemeanors, Booking and Fingerprinting" dating from FY2002, over 12 years ago.

Without some kind of legislation enacted, the State can continue to require cities to initially fund mandates, but not be required to budget for the repayment of these mandates to the cities.

FISCAL

IMPACT: The fiscal impact, on a yearly basis, does not currently have a dramatic impact on the City. However, over the last 12 years, these unfunded mandates have reached a level of \$512,000 that is owed to the City's General Fund from the State.

Given the service needs of the City, this one-time influx of funding could be used to help offset delayed maintenance projects or other one-time purchases for the City.

- OPTIONS:
- a. Direct Staff to draft letter for the Mayor's signature to the League of Cities requesting legislation requiring the State of California to pay all outstanding mandate claims before requiring new mandates for cities; or
 - b. Amend, modify, or reject the above option

Note: Dillon's Rule is derived from written decision by Judge John F. Dillon of Iowa in 1868. It is a cornerstone of American municipal law. It maintains that a political subdivision of a state (i.e., City) is connected to the state as a child is connected to a parent. Dillon's Rule is used in interpreting state law when there is a question of whether or not a local government has a certain power.