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## **Fitch: Ruling May Endanger Key Revenue Source for Some CA Cities.**

Fitch Ratings-New York-11 February 2015: A recent appellate court ruling could lead to increased financial pressure for California cities that transfer revenue from electricity utilities to general operating funds, Fitch Ratings says. We believe this decision could lead to similar lawsuits in other locations.

The court ruled that the city of Redding's electric system payments in lieu of taxes (PILOTs) constitute a tax and, therefore, require two-thirds voter approval to remain in place. If the decision from this court stands or if the case is upheld by the state Supreme Court, it would remove an important income stream from the city of Redding's general fund. In fiscal 2014, the electric fund PILOT accounted for 7.8% of general fund revenues and transfers in. Electric system transfers account for a significant amount of general fund inflows in a number of other California, cities including Glendale, Lodi, Los Angeles, Pasadena and Riverside. Fitch believes a trend of similar legal actions could become a rating sensitivity in the coming years for those cities.

The appellate court decision would require two-thirds voter approval under Proposition 26 for the PILOTs to remain in place unless Redding can demonstrate that the transfers recover costs associated with providing electric service.

Momentum to limit utility transfers for general government purposes has been building for decades. Proposition 218 (passed in 1996) required new fees or taxes levied by local governments to receive two-thirds voter approval but excluded electric and gas rates. Proposition 218 and a subsequent ruling by the California Supreme Court in 2006 (*Bighorn Desert-View Water Agency v. Verjil*) successfully limited utility transfers not related to cost recovery. Proposition 26, passed in 2010, more broadly defines taxes with fewer exclusions.

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