



AGA

INLAND EMPIRE OF CALIFORNIA CHAPTER



The Bottom Line

Volume XLVIII, Issue 4, December 2010

Do you know someone who wants to receive AGA monthly newsletter but isn't on the distribution list? Send their email address to me at marshall@moval.org, and I will add them to the list!



December is the month of giving. If possible, don't forget to bring an unwrapped Christmas gift to our PDM Meeting for the children. See page 15 for more details

Don't miss the December Luncheon

Speaker: Shauna Clark, City Manager, City of La Habra Heights

Topic: Pension Reform

UPCOMING EVENTS:

DECEMBER LUNCHEON

Wednesday, December 8, 2010

11:30 am - 1:00 pm

San Bernardino Hilton

285 E. Hospitality Lane,

San Bernardino

JANUARY LUNCHEON

Wednesday, January 12, 2011

11:30 am - 1:00 pm

San Bernardino Hilton

285 E. Hospitality Lane,

San Bernardino

President's Message

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The holiday season ushers in a spirit of giving and sharing, which allows us to reflect on the needs of those who are financially limited. On behalf of the CEC, I would like to express my sincere thanks and appreciation for the Chapter members who participated in our November food drive. We were successful in providing the Community Action Partnership of San Bernardino with an abundance of food items for local families. In keeping with spirit of giving, our Chapter will be sponsoring a December toy drive for children at the Loma Linda Medical Center. For further details regarding the toy drive, please refer to the Volunteer and Community Services section of the newsletter.

After the start of the new year, we will be preparing for our annual scholarship raffle and the VITA tax program. So, please be sure to visit our website to obtain more information for all the upcoming activities that will be occurring within our local Chapter.

I would like to wish you all a happy and safe holiday season!



Phaedra Green

President, AGA Inland Empire

About The Bottom Line:

AGA Inland Empire Chapter's monthly newsletter, *The Bottom Line*, covers member and AGA activities at both the Chapter and National levels. *The Bottom Line* features Chapter news, developments within the profession and articles of interest to members. Opinions and beliefs expressed in *The Bottom Line* are those of the contributors and do not necessarily reflect those of the AGA.

We welcome and encourage members to send us original or reproduced articles that may be of interest to our members for publication in our newsletter. Articles are due by the end of the second week of each month.

Editorial contributions, ideas, or suggestions should be sent to the Newsletter Chair at marshalle@moval.org.



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Chapter Officers:

President

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CGFM Chair

Position Open

Webmaster

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Hospitality Chair

Linda Tostado
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Historian

Position Open

Education Chair

Ali Chemkhi
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President Elect's Message

The downturn of our nation's economy has negatively impacted every aspect of the job market. No one profession has been exempt from the perils of the current economy. We all have witnessed layoffs, furloughs, and early retirements within our own work environments. There is a sense of uncertainty that we all must feel with regards to the strength of our job security. Part of these weaknesses are leading to new policies concerning the pensions of the future.

As the City Manager for the City of La Habra Heights, Shauna Clark is fully aware of how pensions impact the financials for the City. For more than a decade, Shauna has been facing these issues from both the public and private sectors. I am more than positive that you will be enlightened by the information that she will share with you regarding pension reform.



Marshall Eyerman

President Elect, AGA Inland Empire

Annual Training Calendar

Date	Location	Subject	Speaker/Agency
Sept. 8	SB Hilton	Requirements of ARRA Grants	Matthew Lenton, CPA Mayer Hoffman McCann P.C.
Oct. 13	SB Hilton	Current Investment Market and Debt Structuring	Janice Mazyc, Managing Director The PFM Group
Nov. 3	SB Hilton	The Current Economy and Loss of Revenues	Greg Devereaux, County Administrative Officer San Bernardino County
Dec. 8	SB Hilton	Pension Reform	Shauna Clark, City Manager City of La Habra Heights
Jan. 12	SB Hilton	2010 Tax Update	Cheryl Meils, CPA, Lynne Bushore Certified Public Accountants
Feb. 9	SB Hilton	Social Security and Planning for Retirement	Robert Hartnett Social Security Administration
Mar. 9	SB Hilton	Quality Assurance Reviews	Vicki McIntyre, CPA
Apr. 13	SB Hilton	Future of the Accounting Profession—Part 2	Barbara Bowly, Recruiting Manager Robert Half Finance & Accounting
May. 11	SB Hilton	Audit/Internal Controls	Rod LeMond, CPA, Western Municipal Water District

Please check the website (www.aga-ie.org) for location address and directions

Professional Development Meeting

From Linda Tostado

DECEMBER LUNCHEON

Wednesday, December 8, 2010

11:30 am - 1:00 pm

Hilton, San Bernardino

(Directions on page 15)

“Pension Reform”

- Speaker:** Shauna Clark, City Manager
City of La Habra Heights
- Menu:** Fiesta Lunch
- Cost:** \$25.00 Members
\$30.00 Non-Members
\$10.00 Student Members
\$14.00 Student Non-Members
- Reservations:** call (909) 383-9658 or
email ltostado@hss.sbcounty.gov
- Deadline:** Friday December 3, 2010, 5:00 pm

IMPORTANT:
Please remember if a reservation is made but unattended, then the attendee is responsible for payment. (But if you let me know before the meeting that you will be unable to attend, I might be able to sell your ticket to someone who requests a reservation after the deadline.)

SORRY - NO REFUNDS FOR LUNCH CANCELLATIONS

About Our Speaker

Shauna Clark is the City Manager of the City of La Habra Heights and previously was the City Manager of the City of San Bernardino. For the ten years between those two positions she was a public/private sector consultant working for several cities in California including Los Angeles, Carmel-by-the-Sea, Moreno Valley, Riverside, Pasadena, Bell Gardens and Baldwin Park. In addition to her work with cities, Ms. Clark has provided consulting services to universities, the State of California and private sector clients including California Portland Cement and ECAP, Inc. Her consulting specialties include management finance and economic development.

Shauna Clark has enjoyed teaching in the MPA program at CSUN's Tseng College of Extended Learning for seven years. Her current classes include MPA 643, Public Sector Personnel Management, and MPA 644 Public Finance and Budgeting. In addition, she has taught Community and Economic Development and the Politics of Budgeting. Before teaching at CSUN, Ms. Clark lectured at Cal State Los Angeles and Cal State San Bernardino in the MPA programs. She holds an MBA with a concentration in Finance and a BA in Public Administration from Cal State San Bernardino.

Chapter Officers:

Community Services Chair

Josue Palos
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Scholarship and Awards Chair

Andrea Cook
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Employment Chair

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Newsletter Chair

Marshall Eyerman
marshalle@moval.org

Chair Members Needed:

If you would like to serve as one of the following Chapter Chair positions, please send your information to pgreen@acr.sbcounty.gov.

Positions Available

- Membership
- Historian
- Newsletter
- CGFM

California Regional Representatives:

Vice President

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Past Vice President

Alex Guiang
agasiliconval@sbcglobal.net

Vice President Elect

Angie Lowi-Teng
ateng@sco.ca.gov

Internet Resources

From Eric Patrick

Local Chapter Website: <http://www.aga-ie.org>

National Website: <http://www.agacgfm.org>

Also, look under “Government Financial Management Resources” on the Internet. This section has links to most of the accounting organizations, standards setting bodies and federal agencies.

Also check out these websites:

<http://www.gfoa.org/>

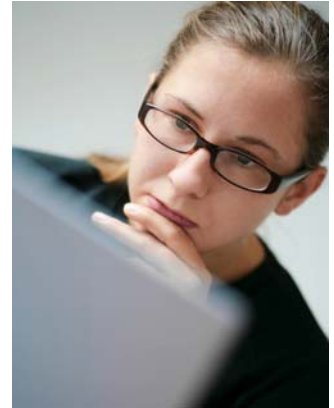
<http://www.specialdistrictcareers.com>

<http://www.govexec.com/>

<http://www.accountingweb.com/>

<http://www.csac.counties.org/>

<http://www.governing.com>



Member News

From Marshall Eyerman

Share the good news! If you or someone in your office has reached a career milestone, completed training or received certification, earned a promotion, or accomplished a personal goal, please forward the information to marshalle@moval.org to be posted in *The Bottom Line*.



Showcase your
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The Bottom Line



AGA's Ninth Annual National Leadership Conference

February 17 – 18, 2011 | Washington, D.C. | 14 CPE Hours
Ronald Reagan Building and International Trade Center



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National and Regional AGA News



AGA's Audio Conference Schedule for 2010

The audio conferences are routinely held on Wednesdays from 2 – 3:50 p.m. Eastern Time, unless otherwise noted. Please check the AGA website before each audio conference to ensure there were no changes. Additional 2010 dates can be found online.

Access the latest information about AGA's Audio Conferences at www.agacgfm.org/education/audioconferences/default.aspx.

Upcoming Audio Conferences 2010/11

- Dec. 8** Internal Control and Risk Assessments: Thoughts on SAS 109 and 115
- Jan. 19** Are We Winning the Improper Payments Battle?
- Feb. 2** Internal Controls
- March 2** Auditing Tools
- March 23** Improving Performance Reporting

AGA Calendar:

Ninth Annual Leadership Conference

Feb. 17 - 18, 2011

Washington D.C.

Professional Development Conference

July. 10 - 13, 2011

Atlanta, GA

Performance Management Conference

Nov. 3 - 4, 2011

Seattle, WA



Are you prepared for AGA's CGFM Exams?

The CGFM Training Series

Consists of three courses, offered throughout the U.S.

- ★ Develop a broad base of knowledge in government auditing, accounting, financial management and budgeting
- ★ Get up-to-date information on the latest policies and procedures
- ★ Discover how to work more effectively in government environments and on related projects

VITA

VOLUNTEER INCOME TAX ASSISTANCE

WHAT IS VITA?

VITA (VOLUNTEER INCOME TAX ASSISTANCE) IS A PROGRAM SPONSORED BY THE IRS AND FRANCHISE TAX BOARD (FTB). VITA VOLUNTEERS RECEIVE TRAINING, AND PREPARE & ELECTRONICALLY FILE INCOME TAX RETURNS FOR LOW INCOME, ELDERLY, AND DISABLED TAXPAYERS, FREE OF CHARGE.

HOW DOES VITA BENEFIT THE COMMUNITY?

CHANGES IN THE TAX LAWS HAVE FURTHER COMPLICATED THE ALREADY COMPLEX PROCEDURES. THIS OFFERS BOTH GOOD AND BAD NEWS FOR MANY INLAND EMPIRE TAXPAYERS. THESE CHANGES FAVOR LOW AND MIDDLE INCOME TAXPAYERS. THE BAD NEWS IS THAT THE COMPLEXITY OF CALCULATING THESE GOOD PROVISIONS IS OVERWHELMING FOR THE AVERAGE TAXPAYER. A LARGE POOL OF EDUCATED, EXPERIENCED TAX PREPARERS IS NEEDED. CSUSB AND AGA-IE HELP FULFILL THIS NEED.

- **NO PRIOR TAX EXPERIENCE IS REQUIRED**
- **FREE TAX TRAINING PROVIDED**
- **ENJOY THE SATISFACTION OF GIVING BACK TO OTHERS!**

**BE A VITA VOLUNTEER
IN YOUR COMMUNITY!**

**HELP US ASSIST LOW INCOME
INDIVIDUALS & FAMILIES!**



FIRST CLASS / OVERVIEW OF VITA

January 8, 2011 9am - 6pm

Syllabus available online



Interested? Email Janet Courish: vita@csusb.edu

Make sure you type: "I want to join VITA" on the subject line.

In the body of your email type your name, email address, and phone #.

For Additional Info: www.cbpa.csusb.edu/vita

Election Adds Pressure to Change Public Pensions

By Stephen C. Fehr, Staff Writer, www.Stateline.org

Published: Thursday, Nov. 4, 2010

Six newly elected governors are looking favorably at some form of 401(k)-style retirement plan for public sector employees, adding to the momentum building nationally for a shift away from traditional guaranteed pensions.

Tuesday's election was in some ways the first national referendum on the future of public pensions, the cost of which has been rising in many states, counties and cities and is crowding out education and other popular programs. In addition to the gubernatorial elections, voters in eight of nine California cities and counties approved ballot measures slashing public pension benefits, and residents of more than 40 suburban Chicago communities approved a ballot question demanding that the Illinois Legislature lower benefits for future state workers, targeting public safety officers and firefighters.

"There is widespread concern about the cost of public-employee pensions," says John Pitney, Jr., a professor of American politics at Claremont McKenna College in California. "Passage of the ballot measures is another sign that voters are serious about the issue."

Loss for labor

The election of Republican governors in Alabama, Nevada, Pennsylvania, Tennessee and Wisconsin and an independent in Rhode Island who have all embraced 401(k)-style plans was a defeat for organized labor. Public employee unions have sought to largely preserve the current system, although they have supported some benefit reductions for newly hired employees. Several other candidates for state-wide offices elected Tuesday also have said they believe state employee pension plans eventually will run out of money unless new hires receive retirement benefits more in line with those of the private sector.

Pension reform already was going to be a key issue in many state legislatures in 2011; the Tuesday vote could presage tense fights between the newly elected Republicans and Democrats who received campaign cash and workers from public employee unions.

Republican governors-elect Brian Sandoval of Nevada, Robert Bentley of Alabama, Bill Haslam of Tennessee and Scott Walker of Wisconsin all say they generally back the 401(k)-style system, also called "defined contribution" plans. In that model, employees contribute to their pension fund and assume the investment risk, but are given no specified guarantee of funds upon retirement.

A fifth Republican winner, Tom Corbett of Pennsylvania, has said he would consider a hybrid that combines features of the 401(k)-like plan and fixed benefits. Independent candidate Lincoln Chafee, who was elected Rhode Island's next governor, says he would support a hybrid plan for new hires. Michigan already has a 401(k)-type defined contribution plan for state workers but newly elected Governor Rick Snyder, a Republican, has vowed to tighten public pension eligibility and increase retiree health care co-pays.

Democrats also are under pressure to trim retirement fund costs. Seven Democrats who won gubernatorial seats refrained from supporting 401(k)-style plans but said they would continue overhauling the existing public pension system to bring down costs. All had been challenged by 401(k)-supporting Republican opponents. These Democrats pledged to modify the system despite receiving campaign contributions from public employee unions.

So far, only two states — Alaska and Michigan — have adopted 401(k)-style public pension systems as their primary plan. Six states offer defined contribution benefits as an option and eight states have instituted hybrid or combined 401(k)-style and fixed benefit plans, according to the National Conference of State Legislatures. Nearly every state has discussed changing to a defined contribution plan but many have backed off because of political differences and pushback from organized labor.

(continued on page 16)

Bosses Overestimate Their Management Skills

By Joe Light, The Wall Street Journal
Reprinted from AGA Today

Bosses who think they're the next Jack Welch might want to reassess their talent level.

A new survey of 1,100 front-line managers suggests many are over-estimating their skills, with surprisingly little self-doubt. Seventy-two percent said they never questioned their ability to lead others in their first year as a manager.

Managers were also unlikely to rate themselves as weak in a number of leadership attributes, such as planning, communication and adaptability, according to the study by consulting firm Development Dimensions International Inc.

Front-line managers believe that their biggest strengths are in setting work standards and planning and organizing, according to the survey.

The skills they said they most needed to work on were delegating, coaching and gaining commitment—but no more than 15% of managers pointed to any one of those as a "development area."

"It doesn't matter what industry you're in. People have blind spots about where they're weak," says Scott Erker, a senior vice president at DDI, which conducted the survey in September.

The company separately compared some managers' self-assessments to performance in a business simulation that attempted to mimic real-world challenges the leaders might face. They found that managers consistently over-rated their delegating and coaching abilities, Mr. Erker says.

On the other hand, the company didn't find any consistent pattern of "hidden strengths," or areas in which managers underestimated their skills, he says.

One problem: When workers become managers, they're often surrounded by employees who flatter them as a way of ingratiating themselves to their boss, said Stanford business professor Jeffrey Pfeffer, author of the book "Power."

"People also don't understand the feedback they get. They either mishear or choose not to hear criticism," he said.

Still, at least some front-line managers harbor some doubts. About 26% of front-line managers said that they regretted being promoted at least sometimes during their first year, according to the DDI study. Fifteen percent said that their interest in being a manager decreased since being promoted.



States Offer Washington Lesson in Belt Tightening

By Amy Merrick, Conor Dougherty and David Wessel

The Wall Street Journal, November 17, 2010, Reprinted from AGA Today

The U.S. government is now borrowing \$5 billion every business day and has done nothing more than talk about a plan to reduce its debt. State governments don't have that luxury.

From Sacramento to Austin to Albany, the day of fiscal reckoning is here. At one point this spring, financial markets were demanding more to insure investors against defaults by Illinois, New Jersey, New York and Michigan than to insure the debt of Ireland and Portugal, the flailing economies of Europe.

Federal aid cushioned states from some of the drop in revenues during the recession, but that's running out. With all statehouses unable to borrow as readily as Washington and nearly all constitutionally required to balance their budgets, they can't ignore gaps between revenue and spending.

On Monday, Pennsylvania's house of representatives passed a bill, already approved by the state senate, that raises the retirement age for new state workers and gives workers a choice between lower pension benefits and higher contributions.

Illinois lawmakers met Tuesday to debate options for addressing their troubled state budget, including a major gambling expansion, an income-tax increase and borrowing \$4 billion to make pension payments.

After learning that California faces a deficit next year of \$25.4 billion, twice the size of previous forecasts, California Gov. Arnold Schwarzenegger last week called for legislators to meet Dec. 6 in a special session to make midyear budget cuts.

State governments—battered by the downturn and generous pension promises to their employees—have cut spending and raised taxes, while Washington has been spending more to prop up the sagging economy and cutting taxes.

In the past three years, 29 states have raised fees on, or cut services for, the elderly and people with disabilities, says the Center on Budget and Policy Priorities, a liberal-leaning research group. Fifteen states raised sales or income taxes in 2009 or 2010, according to the Tax Foundation, a conservative-leaning Washington research outfit.

At some point, Congress and the president will have to grapple with the gap between revenue and spending. Despite a tough proposal last week from the leaders of a deficit-reduction panel appointed by the White House, the recent congressional elections left many deficit hawks dispirited.

Too many Republicans, the hawks say, have persuaded themselves they can reduce the deficit significantly by cutting only unpopular spending and rejecting tax increases. And Democrats, they worry, are digging in to protect spending on health and retirement benefits, which drive future deficits, and on education and infrastructure—and to insist on higher taxes. Polls suggest the public is divided, and sometimes simply inconsistent.

There are many reasons, of course, that state governments and the national one have to manage their finances differently. Washington is expected to run big deficits during recessions; states can't. Washington issues debt deemed the safest in the world; states have to worry about credit ratings and the prospect of someday being shut out of markets.

Yet in significant ways, state governments offer a hint of what lies ahead for Washington.

(continued on page 17)

The Housing Markets Effect on Government Finance

By John E. Petersen, www.Governing.com

November 2010

Plunging real estate values have devastating consequences for government Finance

Lots of ink is being spilled on the housing market's two-year dramatic slump. Beyond harm for homeowners and communities, the plunges in housing prices and home sales have had devastating consequences for state and local government finances, which have long relied on increases in property values and construction activity.

The drop in real estate values and its impact on property taxes is easy to envision. But that's just part of the problem. Deeper seated is linkage between housing construction, and the many ways that home sales and building activity affect state and local government revenues.

Let's start with housing sales and how they affect economic activity that, in turn, generates tax revenue. In 2005, 1.28 million new homes were sold at an average price of \$290,000, according to the U.S. Census Bureau. That meant a total sales volume of \$371 billion. Meanwhile, 7 million existing homes were sold in 2005 at an average price of \$269,000, which meant a volume of about

\$1.88 trillion. The new homes, of course, had a greater per-dollar spending impact since they had to be built. But sales of existing houses count too. Buyers spend thousands of dollars on repairs, new appliances, legal fees and sales commissions -- which add up to a huge boost to the economy.

By contrast, the annual rate of new home sales in July was 288,000 and the average price was \$244,300. The total dollar volume of new home sales was \$70.3 billion -- an 80 percent decline from the level five years earlier. The annual sales volume on existing houses was \$890 billion, marking almost a 60 percent decline. That's for one month at an annual rate, but it suggests that there yet may be no floor on the real estate market.

A result of this horrendous decline in value has been a large percentage of properties going under water -- having less market value than the mortgages they carry. Foreclosure rates are astronomically high, particularly in Arizona, California, Florida, Illinois, Nevada and New Jersey. Not surprisingly, these states also saw the greatest burdens in terms of mortgage costs to household income during the fever pitch of the housing boom. And all are having severe budgetary problems.

There are other powerful fiscal connections. By mid-2010, construction jobs had fallen by 2 million workers since their peak in 2006. Roughly speaking, construction jobs generate about two additional jobs off site for every worker employed on site. Thus the \$800 billion in wages not being earned by active construction workers results in a decrease of \$1.6 trillion in related industries and perhaps another 4 million jobs. (The blow is somewhat lessened by unemployment benefits that replace about 35 percent of wages on average.) These very round numbers add up to 6 million jobs lost in the U.S. economy since 2007.

Then there are implications from lower sales of building materials, household appliances and furnishings, which are subject to sales taxes in most states. In addition, building permits, hook-up fees and titling taxes are part of the state and local revenue mix, not to mention the profit taxes applied to land corporations and limited liability partnerships. Impact fees and development charges are another part of the revenue arsenal. Each tax system is idiosyncratic, but for years the ability to load costs on new development has been low-hanging fruit for the tax collector. But times changed. Overall, according the Nelson A. Rockefeller Institute of Government, state taxes in fiscal 2010 were about 17 percent below collections in 2008. Property taxes showed a year-to-year decline of about 1 percent -- and they react more slowly than other taxes. The effect on property taxes has yet to play itself out as assessment practices in many states delay the impact.

(continued on page 19)

Treasury Report

From Eric Patrick

September 2010		October 2010	
Beginning Balance:	\$4,700.53	Beginning Balance:	\$4,597.52
<u>Receipts:</u>		<u>Receipts:</u>	
Conferences & Seminars (101)	\$0.00	Conferences & Seminars (101)	\$1,697.00
Luncheon Meetings (102)	1,682.00	Luncheon Meetings (102)	855.00
50/50 Raffle (104)	21.00	50/50 Raffle (104)	13.50
Donation Income (108)	0.00	Donation Income (108)	13.50
Chapter Dues (103)	0.00	Chapter Dues (103)	147.50
Total Receipts:	\$1,703.00	Total Receipts:	\$2,726.50
<u>Expenditures:</u>		<u>Expenditures:</u>	
Meals (201)	\$1,737.04	Meals (201)	\$1,987.47
Speaker Gifts (207)	0.00	Speaker Gifts (207)	0.00
CEC Lunches (214)	68.97	CEC Lunches (214)	106.20
PDC Conference (219)	0.00	PDC Conference (219)	0.00
50/50 Charitable Cont. (221)	0.00	50/50 Charitable Cont. (221)	0.00
PO Box Fee (226)	0.00	PO Box Fee (226)	0.00
Total Expenditures:	\$1,806.01	Total Expenditures:	\$2,095.67
Ending Balance	\$4,597.52	Ending Balance	\$5,228.35

Membership News

From David Bobbitt

Here are our current numbers (membership fiscal year ends April 30th):

	FY 2009/10	FY 2010/11 YTD	FY 2010/11 Goal
Current Members	164	126	180
New Members	9	2	19
Suspended Members	38	39	16

Nominate the next Member of the Month

If you would like to nominate someone for Member of the Month, please complete the form on page 20...

AGA - Meeting Pictures

From Andrea Cook

Meeting Date: November 3, 2010
AGA meeting held at the Hilton, San Bernardino



Volunteer and Community Services

From Josue Palos

Members interested in helping the community are encouraged to participate in a community event of their choice and provide information to the chapter for inclusion in the newsletter.

50/50

Help our local Organizations by contributing to our 50/50 fundraiser; 50% of the proceeds will be given away to the winning ticket holder. The remainder of the proceeds go to the **Susan G. Komen for the Cure** and the **Loma Linda University Medical Center—Children's Hospital**. Tickets will be sold at the main table near the entrance of the AGA meeting:

- 1 for \$1,
- 3 for \$2,
- 6 for \$3,
- or 10 for \$5

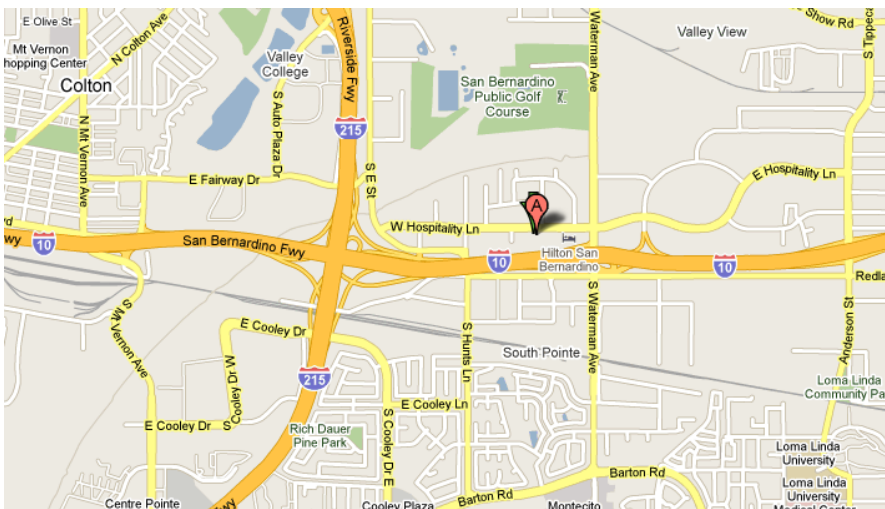


Please donate whole blood, plasma, or platelets. It's the gift of life!

Our chapter has an ongoing blood drive with the Blood Bank of San Bernardino and Riverside Counties for the community blood plan. Please write "GCAG" in the donor group. If you have questions, donor centers are located in San Bernardino (909-885-6503), Riverside (951-687-2530), Ontario (909-987-3158), and High Desert (760-949-6344), Upland (909)920-0625.

Toy Drive

In the month of December, the AGA will be collecting unwrapped toys which will be donated to a charitable organization. Individuals wishing to contribute new and unwrapped toys may drop-off their special gifts at our upcoming December AGA meeting.



Professional Development Meeting

Hilton

285 E. Hospitality Lane,
San Bernardino, CA

From the I-215 FWY, East on I-10,
North on S. Waterman ,
West on Hospitality Lane
On south side of street

Continued From Previous Sections

Public Pensions — continued from page 9

Democrats also are under pressure to trim retirement fund costs. Seven Democrats who won gubernatorial seats refrained from supporting 401(k)-style plans but said they would continue overhauling the existing public pension system to bring down costs. All had been challenged by 401(k)-supporting Republican opponents. These Democrats pledged to modify the system despite receiving campaign contributions from public employee unions.

So far, only two states — Alaska and Michigan — have adopted 401(k)-style public pension systems as their primary plan. Six states offer defined contribution benefits as an option and eight states have instituted hybrid or combined 401(k)-style and fixed benefit plans, according to the National Conference of State Legislatures. Nearly every state has discussed changing to a defined contribution plan but many have backed off because of political differences and pushback from organized labor.

Public pension plans took a severe hit from the Wall Street financial collapse in 2008; the median investment loss was 25 percent. Even before the recession, however, states were underfunding their employee pension plans. A study by the Pew Center on the States released earlier this year and based on data from before the 2008 Wall Street crisis found that there was a gap of \$1 trillion between assets and liabilities of state pension funds.

Local liabilities

A similarly staggering gap exists in local government pension plans. In California this Tuesday, voters in Menlo Park, Carlsbad, San Jose, Redding, Riverside, Bakersfield and Pacific Grove approved ballot measures reducing public pension benefits for new hires. In San Diego, voters rejected a half-cent hike in the sales tax that would have prevented budget cuts in police and fire services. The city pension fund, in which public safety employees are included, faces a \$2.1 billion deficit that is driving San Diego's budget crisis. The lone exception in the state was labor-friendly San Francisco,

where voters rejected a ballot measure to boost pension contributions from city workers.

In the California governor's race, Meg Whitman, a Republican, sought to paint Democrat Jerry Brown as a tool of labor unions who would refuse to slash public pension costs. Brown, who won, said he would work with union leaders to keep the current defined-benefit plan but offer it to new employees with diminished benefits and increase contributions of current workers.

Public pensions also were a huge issue in Illinois, the state with the nation's most underfunded retirement system. By one unofficial count, 47 communities in six Chicago-area counties approved a ballot question asking the Illinois Legislature to enact additional public pension reform. Governor Pat Quinn, who held a narrow lead over Republican Bill Brady following the vote on Tuesday, had pushed through a series of reforms earlier this year, including one raising the retirement age from 60 to 67 for new hires, establishing the highest retirement age in the country. Still, Quinn supported the existing defined-benefit plan while Brady favored defined contribution.

Analysts say the public pension funding crisis guarantees years of election debates and ballot measures similar to the ones this year. 2010 was just the start. "It's not ideology, it's arithmetic," says political scientist Pitney of Claremont College. "Money is short, and the savings have to come from somewhere."

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One popular state tactic has obvious—and ironic—national implications. New Jersey, Indiana and Minnesota, among others, have trimmed *state* spending by sending less money to *local* governments. That pushes onto local officials politically tough decisions about raising taxes, cutting spending or finding major money-saving efficiencies. In the past, Republicans in Washington have proposed shrinking and removing strings from various federal-state programs and letting states figure out how to do the job with less.

In other states, notably Illinois and California, the political system has done little more than lurch to the end of the fiscal year. California voters took a step toward alleviating gridlock, approving a referendum that reduces the legislative votes needed to approve a budget to a simple majority, from the current two-thirds. It will still take two-thirds to raise taxes or fees, however.

There are political lessons to be gleaned from what is happening in some states. In Indiana, Mississippi and New Jersey, Republican governors appear to be maintaining their popularity while cutting spending. New Jersey's Chris Christie has cut pensions for future state and local employees, vetoed a tax increase on income over \$1 million and cut \$1.26 billion in aid to schools and municipalities, which local officials said would drive up property taxes. Among New Jersey residents, 51% approved of the job Mr. Christie was doing, versus 37% who disapproved, a Fairleigh Dickinson University poll found in October.

But, just as Washington has been reluctant to cut Social Security and health benefits, most states have yet to tackle their biggest fiscal issue: the trillions of dollars in pension and health benefits promised to state employees, for which states haven't set aside enough money.

Tolerance for state tax increases may be fading. Twelve of the newly elected governors—11 Republicans plus New York Democrat Andrew Cuomo—have ruled out tax hikes to cure deficits, according to a tally by Stateline.org, a website published by the Pew Center on the States. In Washington state, voters recently undid higher taxes on candy, bottled water and soda that the legislature had enacted, and they rejected a proposed income tax that would have hit only high-wage earners.

In Indiana, Gov. Mitch Daniels, a second-term Republican and the former White House budget director for President George W. Bush, moved the state from deficit to surplus by paring spending in good times. Indiana swung from a nearly \$200 million deficit in 2004, the year Mr. Daniels was first elected, to a \$1.3 billion surplus last year. It was not without controversy: On his second day in office, Mr. Daniels issued an executive order that ended collective-bargaining rights for state employees.

The Daniels approach wasn't tax-free. He increased the state cigarette tax to help pay for a new health-care program.

Indiana eliminated roughly half its nearly \$1 billion deficit for its latest fiscal year by drawing down rainy-day funds it had built up in good times. The rest came from spending cuts, large and small. In April, Mr. Daniels directed state agencies to reduce spending 5% for the current fiscal year, on top of a 10% cut ordered earlier. He cut \$150 million in aid to state colleges and universities, suspended a \$15 biweekly matching contribution to public-employee retirement accounts and reduced the number of state-owned vehicles.

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Some of the state's most-vulnerable citizens have been affected. In October, the state ended a grocery subsidy for more than 400 developmentally disabled people. Officials said the program was misused. Nonprofits serving the disabled say some are turning to food banks.

In January, foster parents won an injunction blocking Mr. Daniels' proposed 10% cut in state aid to them. On Nov. 4, Mr. Daniels proposed cutting unemployment benefits, despite the state's 10.1% unemployment rate. Indiana has borrowed nearly \$2 billion from the federal government to shore up its unemployment-compensation fund. Next year, the state intends to begin charging businesses more to replenish the coffers.

The state's fiscal cushion is getting thinner. By June 2011, the state will have less than \$200 million in its rainy-day fund, forcing it to rely mainly on spending cuts or revenue increases to address a projected \$1.2 billion shortfall. Earlier this month, the governor said he is opposed to any tax increase.

Indiana voters appear to prefer reduced services to higher taxes, at least higher property taxes, which are levied by local governments. On Nov. 2, 72% approved putting property-tax caps into the state constitution, making it difficult for future lawmakers to change them. "We put the caps there so [local-government] units could not find a way to raise property taxes back to a level we had just found intolerable," Mr. Daniels said in a recent interview.

Mr. Daniels remains popular. He was re-elected by an 18-point margin in 2008, and his approval rating hovers around 65% now.

In May, Minnesota lawmakers approved a budget widely seen as a victory for outgoing Republican Gov. Tim Pawlenty, because it ratified spending cuts he had made unilaterally and it didn't raise taxes. The deal,

which eliminated a \$3 billion deficit, gave the governor or his successor—the election results aren't yet final—power to shift thousands of low-income Minnesotans from a state-funded health plan to the state-federal Medicaid plan. Lawmakers balanced this year's budget, mainly by delaying \$1.9 billion in payments that had been promised to K-12 schools by June 2011, setting aside nothing to make payments later.

Part of Mr. Pawlenty's budget-balance strategy has been reducing state aid to cities and counties. In the fiscal year that ends in June 2011, state contributions will represent 16% of local-government revenue, excepting school funding, down from 25% eight years earlier, according to Minnesota 2020, a left-leaning St. Paul think tank. The state provided 64% of local school revenue this year, down 10 percentage points from 2003.

The result: Local governments have to choose between raising taxes and cutting services.

In Indiana, for example, local governments increased property taxes, which provoked a backlash. Gov. Daniels backed a 2008 state law that limited property taxes to 1% of the assessed value for homes, 2% for rental properties and farms, and 3% for businesses.

To shore up school budgets, Indiana then raised the sales tax to 7%, from 6%. But as residents cut back on spending, sales-tax revenue fell. Mr. Daniels told school districts in January to cut budgets 3.5%. When parents, teachers and administrators protested, he offered a "Citizens' Checklist" of ways to cut budgets without teacher layoffs. Sample suggestion: "Examine and reduce all fringe benefits of school-board members and administration..."

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In Muncie, Republican Mayor Sharon McShurley, who supports the property-tax cap, has cut, among other things, the firefighting budget, angering the Democratic-controlled city council. As part of \$464,000 in budget cuts for the coming year, the council eliminated funding for the leased copier and printer in the mayor's office. She is seeking donations to replace the equipment.

Indiana's nonpartisan Legislative Services Agency said the caps will cost cities and towns—and save property owners—\$474.6 million this year, nearly 10% of potential total property-tax revenues. State auditors warn that tax caps could push the city of Gary into insolvency.

Illinois is a case study in the cost of delay. With revenue falling and payments due to state-employee pension funds, Illinois faces a deficit for the fiscal year beginning July 1, 2011, that could reach \$15 billion—more than half the state's general-fund budget. Because the state hasn't made any pension payments for four months, the pension funds have been selling assets.

The state's backlog of unpaid bills reached \$5.5 billion at the end of September, \$2 billion of which must be paid by Dec. 31. "The ability of the state to maintain any reasonable level of education and social-service funding—and just as importantly, to pay for those services on a timely basis—will be severely jeopardized," Comptroller Daniel Hynes has warned.

Companies that provide foam food trays for prison meals and bullets to train prison guards stopped delivering because they weren't being paid. Social-service agencies have cut staff, reduced caseloads, and, in some instances, closed altogether, as they wait for the state to pay bills.

Earlier this year, Democratic Gov. Pat Quinn, who kept his job by a narrow margin on Nov. 2, proposed a one percentage point increase in the state income tax, to 4%, dubbing it "1% for education." But the Democratic-controlled House balked. His Republican opponent for governor, state Sen. Bill Brady, advocated cutting taxes, saying that would boost the state's economy, as well as cutting spending "a dime for every dollar." Neither candidate laid out a plan to balance the budget.

So far, Illinois hasn't had difficulty borrowing, but it is paying more to do so. Its Moody's bond rating is the lowest of any state.

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The tie binding state and local revenues to the activities embodied in construction spending, high levels of mobility and fast-paced development are long-standing. That suggests we should be doing some basic thinking about what state and local revenue systems should be based on and how much volatility we are willing to accept. We may need to live through many more years of fiscal distress before finding a proper balance between what public services we are willing to pay for and how they should be financed. As former British Prime Minister Winston Churchill once said, "You can always count on Americans to do the right thing -- after they've tried everything else."

NOMINATION FORM: MEMBER OF THE MONTH

Date: _____

To: AGA CEC, PO Box 5622, San Bernardino, CA 92412-5622 or fax to (951) 413-3628

Nominator: _____

Contact Info: _____ (email address)

_____ (phone - optional)

Nominee's Name: _____

Nominee's Employer: _____

Department: _____

Job Title: _____

Email: _____

Phone Number: _____

Reason(s) for Nomination:
