



Agenda Item #: _____

Staff Report

City of Manhattan Beach

TO: Honorable Mayor Tell and Members of the City Council

THROUGH: Geoff Dolan, City Manager

FROM: Lindy Coe-Juell, Assistant to the City Manager

DATE: July 17, 2007

SUBJECT: Consideration of the State Budget and Legislative Update

RECOMMENDATION:

Staff recommends that the City Council receive and file the July 2007 Budget and Legislative Update from Tony Rice, the City's legislative advocate.

FISCAL IMPLICATION:

There are no fiscal implications associated with staff's recommendation.

BACKGROUND:

The City contracts with Tony Rice of Rice, Englander and Associates for legislative advocacy and representation. One of the deliverables of the contract is to provide regular updates on the state budget and legislative activity.

DISCUSSION:

The July 2007 Budget and Legislative Update from Tony Rice is attached.

July 17, 2007

To: City of Manhattan Beach

Fm: Rice/Englander & Associates

RE: SACRAMENTO UPDATE

Budget

The Joint Legislative Budget Conference Committee has concluded its work. What this means is that the Legislature, primarily the majority party in both House's, has agreed on their spending priorities for 2007-08. That said, the Governor and the minority party have yet to agree with all the priorities outlined in the majority parties Conference Report. On Tuesday, July 3, 2007, the Assembly Budget Committee, the lead committee for the conference report, released its preliminary Conference Report for the FY 2007-08 State Budget. The Report indicates that the Conference Committee version of the budget is similar to the Governor's May Revision proposal in that both have similar reserve levels of approximately \$2 billion and neither proposal provides for many new programs. The following is taken from the Conference Committee report:

On June 29, 2007, the Budget Conference Committee completed their work crafting the budget for 2007-08, thus culminating a five month process of well over 100 subcommittee, full committee, and Conference Committee hearings. During which time countless issues were presented, debated, and acted upon, resulting in a final budget that is fair, responsible, and balanced.

In total, the Conference version of the budget contains \$105.7 billion in available General Fund resources, \$104.4 billion in General Fund expenditures, and a total available reserve of \$2.023 billion.

The Conference version is similar to the Governor's May Revision proposal in that they both have almost identical actual reserves and neither have a lot of new programs.

Some key elements of the Conference version of the budget are as follows:

- ◆ **\$2 Billion Reserve in line with Governor's May Revision Reserve.** Provides total available reserve of \$2,023 million, within \$13 million of the Governor's updated May Revision reserve. And, the Conference reserve is much more realistic than the Governor's updated May Revision reserve, since it does not include the \$832 million Home-to-School diversion of transportation funds which is likely unconstitutional. Therefore the Governor's reserve likely being overstated by \$832 million.

- ◆ **Tough Solutions.** Includes difficult budget solutions, including cutting the CalWORKS COLA, not "buying-out" the Governor's fee increases for CSU and UC, not providing \$400 million in current year Proposition 98 "settle-up" appropriations, and shifting \$551 million of gas taxes paid at the pump from public transit to the benefit of the General Fund.
- ◆ **Economic Recovery Bonds Repayments.** Includes \$2.5 billion in repayments of the Economic Recovery Bonds. This includes about \$1.5 billion from the dedicated sales tax and \$1 billion that the Governor could have suspended.
- ◆ **Williamson Act.** Rejects the Governor's proposal to eliminate the Williamson Act Subvention for local governments.
- ◆ **CalWORKS for Children.** Rejects the Governor's most draconian cuts to CalWORKS, including \$314 million in cuts that may have taken aid away from as many as 190,000 of California's neediest children.
- ◆ **SSI/SSP COLA.** Rejects the Governor's proposal to cut the January, 2008 COLA for SSI/SSP.
- ◆ **Medi-Cal.** Fully funds caseload and county administration and includes \$214.3 million for managed care rate increases, as proposed in the Governor's May Revision.
- ◆ **Clean Air and Protecting the Environment.** Begins implementation of AB 32 and provides significant funding for clean air and environmental protection efforts with critical bond appropriations.
- ◆ **K-12 Education.** Provides full funding of Growth and COLA for education but makes no new investments for education programs that may not be able to be sustained in future budget years.
- ◆ **Access to Higher Education.** Rejects Governor's proposed cut of \$26.3 million for Academic Preparation programs for the UC and CSU.
- ◆ **Gangs.** Provides \$9.5 million in local assistance grants to create meaningful alternatives to gang affiliation by incentivizing regional collaborations between local agencies and community organizations for gang prevention, intervention, re-entry, job training and community services.
- ◆ **Juvenile Justice.** Reforms the state's system to provide rehabilitative services to juveniles in closer proximity to their families and enhances the capacity of local communities to implement an effective continuum of responses to juvenile crime and delinquency. Provides \$130,000 per ward in block grant assistance to local agencies, as well as \$14.9 million in planning grants.

- ◆ **Public Transportation.** Restores \$749 million of the Governor's \$1.3 billion cut to public transit by rejecting the Governor's \$832 million Home-to-School proposal but approving \$339 million for General Obligation Bonds, \$83 million for Proposition 42 loans, and \$129 million for Regional Center transportation.
- ◆ **Proposition 42.** Provides full funding for Proposition 42, including \$83 million in repayments.

As with every budget, no one can be pleased with every aspect of the entire document. However, it is important to note the following issues that have historically been priorities for Legislative Republicans:

- ◆ No new taxes.
- ◆ Reserve equal to the Governor's updated proposed reserve.
- ◆ \$2.5 billion in Economic Recovery Bond repayments, including \$1 billion above the minimum required payment.
- ◆ No new social programs.
- ◆ Full funding of the current year K-12 Equalization deal.
- ◆ Rejection of the Governor's proposed elimination of the Williamson Act subvention.
- ◆ Over \$500 million for local law enforcement programs (none of which are state programs).

In summary, the Conference version of the budget provides a responsible \$2.023 billion reserve, maintains funding for critical programs, and makes difficult cuts – while also making significant General Fund debt payments.

In prior budget years, the Big Five (Governor and Majority and Minority Leaders in each House) meet semi-regularly amongst themselves to determine the “big ticket” items that will be included in the budget. However, the first such meeting only recently occurred on Monday, July 9, 2007. Based on our insider accounts, the meeting was relatively terse with some significant differences between the parties. There are a few major sticking points, including the redirection of \$1.3 billion in transportation funds for General Fund purposes and approximately \$2 billion in program cuts to bring spending in line with revenue collections. At this time, baseline local government revenues appear to continue to be intact and “off the table”. We will remain vigilant in the protection of your revenues.

Healthcare

As we have reported numerous times, healthcare reform in California continues to be a primary goal of all parties in Sacramento. However, as with everything, the devil is in the details. Both parties in both Houses, as well as the Governor, has released a preferred mechanism for both extending healthcare to the uninsured as well as a funding mechanism to achieve that goal.

And true to form, those differences between the five plans continue to divide all the interested parties as a consensus is still far from being achieved. Many believe that after the budget is put to rest the principle players will invest a lot of energy to make progress this year on a compromise, but at this time, the outline of such an agreement is still not understood.

Infrastructure

Going into the state budget deliberations, the Senate had a very strong desire to allocate as much revenue from the infrastructure bonds passed by the voters in November, 2006, through the budget as possible. In fact, that was one of their main priorities going into the budget discussions while the Assembly preferred to move legislation on the various pots of funding through the legislative process in order to achieve as much public comment and support as possible. At this time, it appears the Assembly's preference is carrying the day, with a few caveats like the inclusion of revenue for local streets and roads. While the revenue will be slower to hit the streets should the funding go through various bills on separate and distinct issues, the opportunity to shape the delivery of the funds will allow all eligible parties to weigh in to create the best possible environment to achieve the will of the voters.

Deadlines

As you know, the Legislature acts by virtue of deadlines and schedules. Recently, we passed a few milestones that significantly affect the outcome of legislative ideas. We like to think of the legislative cycle as a dam at the end of a lake; while the lake fills with thousands of ideas and proposals at the beginning of the season, only a few items are allowed to flow downstream at any one point in time. June 8, 2006 was the last day for legislation to pass their respective House's of origin. Any bill that did not meet that deadline was automatically declared dead for 2007. This deadline pared the number of active bills significantly for the year. Another recent deadline, the passage of bills by policy committees, has also pared the eligible items down even more. Assuming the budget is passed sooner than later, the Legislature will break for the end of July and return August 20, where it will make a mad dash to September 14, the last day for the Legislature to act for the remainder of the year. As the number of active bills dwindle, the focus on the remaining items becomes intense. Therefore, we will continue to monitor every item for significance to the City.

Legislation – Specific Items of Interest

The following updates you on the most recent activity on the bills of highest interest to the City, as dictated by City staff and/or Councilmembers:

AB 391 (Lieu) / SB 886 (Negrete McCleod) – As previously reported, AB 391 has been dropped and the intent of that bill, adding one seat to the South Coast Air Quality Management District, has been amended into SB 886, a SCAQMD sponsored bill that seeks to change the length a member of the Board can serve as Chair. The newly amended proposal has already passed two Assembly policy committees and is awaiting a hearing date in the Assembly Appropriations Committee. All the outstanding policy items plaguing this bill in the past appear to have been resolved.

AB 640 (De La Torre) – This bill would have significantly raised water rates for municipal operators under the west basin water district. This bill has been one of the principally contentious pieces of legislation in the Assembly this year, pitting legislators from the central basin against those in the western basin. As previously reported, this bill has been amended into a bill to study the charges in the central and western basin and make recommendations for future actions. The City has directed staff to monitor this bill and make adjustments to the proposed study that would be more objective in its analysis and ultimate recommendations. Favorable amendments were taken in the Senate Natural Resources Committee on Tuesday, July 10, that should address all previously expressed concerns. This bill is now awaiting assignment in the Senate Appropriations Committee.

AB 800 (Lieu) – This bill has been significantly amended to require notification to a local public health officer within a reasonable timeframe immediately after a sewage spill or hazardous discharge. This bill recently passed the Senate Environmental Quality Committee and is awaiting action by the full Senate.

AB 1407 (Lieu) – This bill would increase the authority of harbor patrols. This bill is being held in the Senate Public Safety Committee.

SB 286 (Lowenthal and Dutton) – This bill, sponsored by the League of California Cities, seeks to accelerate the delivery of local streets and roads funding contained in Proposition 1B. This bill is awaiting action by the Assembly Appropriations Committee.

SB 303 (Ducheny) – This bill seeks to accelerate a city's development of housing in a potentially harmful way to local control and planning. We are pleased to report this bill has been held by the Assembly Local Government Committee.