



Agenda Item #: _____

Staff Report

City of Manhattan Beach

TO: Honorable Mayor Aldinger and Members of the City Council

THROUGH: Geoff Dolan, City Manager

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

DATE: September 4, 2007

SUBJECT: Consideration of the State Budget and Legislative Update

RECOMMENDATION:

Staff recommends that the City Council receive and file the September 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 September 2007 Budget and Legislative Update from Tony Rice is attached.

September 4, 2007

To: City of Manhattan Beach

Fm: Rice/Englander & Associates

RE: SACRAMENTO UPDATE

Budget

After fifty two days of working without a budget the Legislature and the Governor were finally able to reach agreement on a spending plan. When the Assembly returned from their vacation on Monday, August 20, 2007, they were able to work with the Senate and the Governor to reach a compromise proposal that enough legislators could agree with. On Tuesday, August 21, both Houses passed the necessary budget bills and on Friday, August 24, the Governor signed the budget into law. A brief summary of the highlights of the budget bill follow:

Spending:

- The budget contains about \$103 billion in general fund spending, \$1 billion less than Schwarzenegger proposed in May. The general fund pays the state's ongoing operating expenses.
- The plan reduces the state's operating deficit from an estimated \$1.5 billion under Schwarzenegger's plan to about \$700 million. The governor has promised to eliminate the deficit by using his line-item veto powers to cut spending.
- It provides what lawmakers say would be the state's largest-ever reserve in a single year, \$3.4 billion.
- Total state spending, which includes payments to special funds and for bond debt, would be about \$145 billion.

Revenue:

- The budget relies on some optimistic revenue assumptions, analysts say. It also takes \$1.3 billion in unexpectedly high gasoline tax revenue to help pay for the state's ongoing operating expenses. Democrats had sought to keep the money for public transit.
- The budget also relies on \$4.3 billion left over from a tax windfall received in recent years.

Debt:

- The spending plan projects California's deficit will swell to more than \$5 billion in 2008.

Winners/Losers:

- Welfare recipients would not receive cost-of-living increases, and increases for the elderly would be delayed five months. Children of welfare recipients, however, would not see reduced funding, as the governor had proposed.
- Public transit systems would lose \$1.3 billion they could have received from higher-than-expected gasoline tax revenue.
- Medi-Cal caseloads would be fully funded, and the state will pay \$214 million for managed care rate increases.
- K-12 education, as well as the University of California and California State University systems, would be fully funded.
- Local anti-gang programs would receive \$9.5 million, and the California Highway Patrol would get \$7 million to help address gang problems.
- Juvenile justice programs would receive \$14.9 million in planning grants, and reforms would place juvenile services closer to families.
- Transportation would be fully funded under Proposition 42.

Side Deals:

- Republicans won a two-year moratorium on global-warming related lawsuits against transportation and flood-control projects funded with bond money. Republicans said the moratorium was necessary to keep Attorney General Jerry Brown from filing suits that could stifle growth. Democrats said the moratorium was unnecessary and may end up backfiring on Republicans by strengthening environmental law.
- Republicans also won demands that railroads be eligible for more bond funding.
- Vacant state jobs be filled or eliminated more quickly.
- California limit efforts to require state buildings to meet stricter energy efficiency guidelines by the end of the decade.

- Republicans dropped a demand that lawmakers secure equalization funding for schools in the future. The funding is designed to supplement rural and suburban schools with declining enrollment. The two sides will address the issue in budget negotiations next year.
- The Senate did not vote on a tax-credit package for movie studios and high-tech firms that Assembly Republicans tried to link with the budget.

While this was not the longest budget impasse in California's history it certainly was one of the most vitriolic. The Assembly passed a budget in the wee hours of the morning early in July and then shut down completely until August 20. However, they passed their version of the budget without getting the necessary concessions from the Senate. So when the Senate was left to deal with the budget there was not any accord in that House, and the Senate Republicans held out their votes for nearly three weeks in order to gain some more concessions. Not until all the legislators were back in Sacramento was a deal able to be struck.

The bitterness between the parties has left major question marks as to whether anything of significance will get done for the remainder of the year, especially considering there is very little time to pass legislation. Originally, the Legislature was scheduled to cease activities for the remainder of 2007 on September 14. However, in deference to the Jewish members of the Legislature, the legislative leaders have agreed to shut down the Legislature on July 11, 2007. While shutting down three days early may not seem like a lot of difference in time, the fact of the matter is that time is a precious commodity in the Capitol at the end of session and halting activities early threatens many priorities established by the leaders and the Governor earlier in the year.

Healthcare

Healthcare reform is one of those major priorities that the leaders and the Governor have established as a priority for action this year. The goal, as outlined by all the parties in Sacramento has been to find a way to offer insurance to the estimated 7 million Californians that do not have health coverage. Obviously, with any ambitious proposal like this one the devil is not only in the details but also in the funding source.

The budget impasse and bitterness has soured the negotiations on this issue, and so have the meetings by the major stakeholders with some claiming that even though they have been negotiating this issue all year long they are actually farther apart than ever. The Speaker of the Assembly has made this a priority for the end of session and is meeting with the Governor daily to try and craft an acceptable compromise. While progress is being made the prospects are dim at this time.

Deadlines

As you know, and as we have stressed numerous times, the Legislature acts by virtue of deadlines and schedules. The Legislature has just passed one of its last legislative deadlines for the remainder of the year and that was the decree that all legislative proposals must pass the Appropriation's Committees or they would no longer be active for the remainder of 2007. With this hurdle gone, the only scheduled legislative activity is the Senate and the Assembly working daily as full bodies to pass legislation off their respective Floors and to the Governor. And as we previously reported, with the Legislature moving up their final day of activity from September 14 to September 11, there will be furious activity as legislators try and move their priorities to the Governor this year instead of having to wait until 2008. We will continue to remain vigilant on the City's behalf to ensure no end of session shenanigans negatively impact Manhattan Beach.

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:

- **SB 375 (Steinberg)** – We have been keeping City staff apprised of this bill that would have ceded additional planning authority away from local governments like Manhattan Beach to the broader regional authorities. In conjunction with other interested local government advocates we have been working together to thwart these efforts as amendments offered by us to make the bill better were not accepted. We are pleased to report that this bill was held by the Assembly Appropriations Committee.
- **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. This proposal is now enjoying broad Democratic support and is awaiting a hearing by the full Assembly Floor. We have already had successful preliminary meetings with the Governor's office on this bill and are hopeful this bill will get signed. The affect of that will be the Westside of Los Angeles will finally get its own vote and say on the influential South Coast Air Quality Management District Board.
- **AB 640 (De La Torre)** – As introduced, this bill would have significantly raised water rates for municipal operators under the west basin water district. As previously reported though, and thanks in large part to the strong efforts of Assemblymember Ted Lieu, this bill was amended into a bill to study the charges in the central and western basin and make recommendations for future actions.

This bill, though now a study, was still being closely monitored and acted upon by advocates like myself whose clients would have been negatively impacted. We are pleased to report that this bill was held by the Senate Appropriations Committee on August 30.

- **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 is awaiting action by the full Senate.

As always, please feel free to contact Rice/Englander & Associated with any questions or comments you may have.