



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: February 19, 2008

SUBJECT: Consideration of the State Budget and Legislative Update

RECOMMENDATION:

Staff recommends that the City Council receive and file the February 2008 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 February 2008 Budget and Legislative Update from Tony Rice is attached.

February 19, 2008

To: City of Manhattan Beach

Fm: Rice/Englander & Associates

RE: SACRAMENTO UPDATE

Significant actions have taken place in California politics since your last update. The following describes those actions:

State Budget

Without question, the most significant challenge facing the state of California continues to be the issue of dealing with a massive budget deficit. As you know, the Governor utilized the authority under Proposition 58 to call a Special Session of the Legislature to deal with the projected shortfalls. The mandate of the Special Session is to make current year budget adjustments in order to better align state spending with state revenues for the 2007-08 budget year, prior to the upcoming discussions and negotiations for the 2008-09 budget year. The following recaps the challenges of the State as outlined in the Governor's proposed budget released on January 10, 2008:

The Governor released his proposal to address an estimated \$14 billion deficit. By all accounts it is a severe budget highlighted by nearly \$10 billion in proposed cuts to state services, as well as a suspension of the Proposition 98 guarantee (K-14 school funding) and the selling of previously authorized revenue bonds. Attached to this report are the Governor's overall statements as to why the state is in the budgetary position it is, as well as a summary of his proposed courses of actions to handle the budget crisis. Some major highlights follow:

- Under Proposed 58 approved by the voters 3 years ago, the Governor has declared a fiscal emergency and called a Special Session of the Legislature to address a \$6.7 billion deficit in the current year. The Special Session began on January 10, 2008, and the Legislature has 45 days to act on the current budget year's shortfalls.
- 10 percent cuts in all state programs, where legally and practically possible. This is estimated to save the state nearly \$10 billion.
- No new taxes.
- Closing 48 out of 278 state parks.

- Reducing lifeguard staffing by 50 percent at state beaches in Orange, San Diego and Santa Cruz counties.
- Freeing more than 22,000 nonviolent prisoners 20 months earlier than their original release dates. And because of this early release, the Governor estimates the elimination of more than 6,000 correctional officer positions.
- Selling \$3.3 billion in bonds remaining from Proposition 57, approved by voters in 2004 to help balance the budget that year. Also suspends his previous plans for an early repayment of funds already borrowed under Proposition 57.
- Delaying more than \$5 billion in payments for state services to schools, Medi-Cal providers and local governments.
- Raising a vehicle fee that supports the California Highway Patrol by \$11 per vehicle, to generate about \$385 million in 2008-09.
- Local government revenues are not proposed to be raided.
- Proposition 42 (transportation revenues) will not be suspended.
- Local streets and roads revenue, up to \$500 million, will be suspended from one to five months to assist the state with cash flow.
- Additional revenue for transit is made available via the “spillover” mechanism.

Obviously, not all of these proposals are intended for immediate action as Proposition 58 and the Special Session require action only on the current year budgetary dilemma. To that end, the Governor sought approximately \$7 billion in budgetary solutions to address the immediate need, with the broader, long term policy choices to be made in the upcoming 2008-09 budget debate. The following are the choices the Legislature has made to address the immediate need. The Governor is expected to approve the items as expeditiously as possible to capture as much savings as possible, as literally, every day counts toward budget savings:

- Under the package, the state would end the fiscal year June 30 with \$1 billion in reserves.
- The plan would reduce education spending by \$400 million this year.
- A 10 percent reduction in payments to Medi-Cal providers, including doctors and hospitals. The cut would begin July 1 for a savings of \$544 million in the new fiscal year. Additional savings would be achieved by delaying payments to counties and providers.

- These actions are in addition to the selling of more than \$3 billion in previously approved bond revenue, and the scrapping of a proposal to pre-pay \$1.5 billion of a scheduled bond repayment.
- In total, the package constitutes approximately \$7 billion of solutions. The actions address roughly half of the estimated deficit the Governor projected the State will experience.

While these actions are significant in the amount of revenue scored against the projected deficit, more negative news is projected next week. The non-partisan Legislative Analyst's Office is expected to release a study on the current state of the economy for California. It is widely rumored that the Office will conclude with an even worse economic scenario for California, thereby pushing up the projected deficit by billions of dollars. If that is the case, an already bad budget scenario will get significantly worse forcing legislators and the Governor to expand their search for budget solutions, which could include protected funding sources like Proposition 42 funding and local tax revenues.

February 5, 2008 Election

California held a significant Presidential Primary election on February 5, 2008. Turnout was near or above record levels, showing a high level of interest by California in the outcome of the presidential contest this year. In many respects, this was the most significant role California voters have played in the national vote in many, many years. However, arguably, the most immediate and significant political outcome of that election was not necessarily the presidential vote but the handful of initiatives also under consideration on the ballot. There were seven initiatives on the ballot, Propositions 91-97. The outcome of those items follow:

- Proposition 91 – This would have removed the ability of the Legislature to suspend Proposition 42 gas tax funds. This item was defeated, as requested by the initial sponsors, as it was no longer deemed necessary by a previously approved initiative.
- Proposition 92 – This would have locked in student fees at community colleges in California. This measure was defeated.
- Proposition 93 – This proposal would have altered the term limit structure for the California Legislature. This measure was defeated.
- Propositions 94-97 – The sponsors of these initiatives sought to overturn tribal gaming compacts previously agreed to by the Legislature and the Governor. These items were approved by the electorate, which allows the compacts to go in full effect.

The most immediate impact of these proposals from a political perspective was the defeat of Proposition 93. Should that measure have passed, the current leadership of the Legislature would have remained stable. However, with the defeat, an immediate fight for the leadership posts in both the Senate and Assembly ensued.

Two days after the defeat of Proposition 93, the State Senate chose to elect a new President Pro Tempore to lead them in the years to come. The successor is Senator Daryl Steinberg, a liberal Democrat representing the Sacramento area. Senator Steinberg served in the State Assembly for six years, rising in that body to eventually become the Chair of the powerful Appropriations Committee. Senator Steinberg was instantly considered a Pro Tempore candidate upon election to the Senate in 2006. Senator Steinberg will assume the post in August.

The Assembly, as is often the case, is far more cantankerous on the replacement of the current Speaker, Assemblymember Fabian Nunez. It is very likely that a Los Angeles area representative will become the next Speaker, although there are several candidates for the top post, with no clear front runner. The top tier candidates at this time appear to be Assemblymembers Karen Bass, Hector De La Torre and Kevin DeLeon. However, there are other candidates like Assemblymembers Anthony Portantino and Mike Feuer that appear to have legitimate, outside chances. The Assembly Democrats have chosen to caucus in mid-March, specifically on this item, with the intent of choosing the next Speaker. Between now and then, all interested candidates will be working hard for every vote they can secure.

Legislation

Given the status of the state's budgetary dilemma, and the political upheaval caused by the defeat of Proposition 93, the concept of legislation has largely fallen off the radar screen of the Legislature thus far. However, that is expected to change in the near future. The deadline for the submittal of new legislation is the end of February. At that time, we will have an idea of what challenges and opportunities will confront all of us. We will scour all the items for significance and report the items of highest priority when those bills are released.