



Agenda Item #: \_\_\_\_\_

# Staff Report

## City of Manhattan Beach

**TO:** Honorable Mayor Montgomery and Members of the City Council

**THROUGH:** Geoff Dolan, City Manager

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

**DATE:** May 20, 2008

**SUBJECT:** Consideration of the State Budget and Legislative Update

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**RECOMMENDATION:**

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

May 20, 2008

To: City of Manhattan Beach

Fm: Rice/Englander & Associates

**RE: SACRAMENTO UPDATE**

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## **State Budget**

The May Revision has just been released by the Governor's Office. As you know, this document updates the Governor's Proposed Budget that he released in January, and is the final document utilized in the budget negotiations that will mire the Capitol for months to come. While the budget and policy recommendations offered by the Governor will sustain serious scrutiny, the underlying facts regarding the totality of the budget problem will be utilized. Based on the most recent tax collections, expenditures and future budget assumptions the state is facing a \$17.2 billion deficit that must be addressed. While the federal government can deficit spend, the state cannot. We have already informed you that the Governor continues to protect local government revenues (most notably Proposition's 42 and 1A), however he does make numerous suggestions on how to close the budget deficit, and ultimately leave the state with a \$2 billion reserve. Instead of reinventing the wheel on producing an analysis on the complete 84 pages of the May Revision, we instead offer you the following, an excellent and thorough analysis provided by the California Budget Project, a non-partisan, non-profit group that focuses solely on the state budget:

### **GOVERNOR'S MAY REVISION BORROWS AGAINST FUTURE LOTTERY REVENUES, MAKES DEEP CUTS TO HEALTH AND HUMAN SERVICES**

Governor Arnold Schwarzenegger released his May Revision to his Proposed 2008-09 Budget on May 14. The May Revision updates policy proposals, revenue projections, and estimated expenditures for both the current and upcoming budget years. Relative to the Governor's January Proposed Budget, the May Revision projects a widening of the budget gap. The May Revision assumes a shortfall of \$15.2 billion, up from the approximately \$8 billion gap remaining after the mid-year actions approved by the Legislature in February. The Governor outlines \$17.2 billion of "solutions," leaving the state with a \$2 billion reserve. With the exception of relatively modest fee proposals, the May Revision continues the Governor's "all cuts" approach to balancing the budget. The following update provides a "quick and dirty" summary of key provisions of the Governor's May Revision. As additional details become available, the California Budget Project (CBP) will update this document. The CBP also will prepare analyses of major proposals contained in the May Revision over the upcoming days and weeks.

Please check the CBP website ([www.cbp.org](http://www.cbp.org)) for corrections and additions to this analysis as additional information becomes available. The Governor's budget documents are available online at <http://www.ebudget.ca.gov/>.

### **May Revision Assumes Big Drop in 2008-09 Revenues**

The May Revision assumes that 2007-08 and 2008-09 combined tax collections will be \$5.4 billion lower than was forecast by the Governor's January budget. The drop is attributable to the continued weakness in the state and national economies. The magnitude of the reduction, however, is somewhat significant. As of the end of April, year-to-date collections were \$738 million above the January forecast, according to reports issued by the State Controller's Office. While year-to-date sales and corporate income tax receipts lag amounts projected in January, stronger than anticipated personal income tax collections have more than made up the difference.

Other major revenue proposals include changes to the lottery (see below) and postponement of the sale of EdFund, which guarantees student loans, until 2009-10. The 2007-08 Budget assumed that the state would receive \$1 billion from the privatization of EdFund. The Governor proposes establishing a Tax Modernization Commission via executive order to "make recommendations to assist the state in becoming less susceptible to revenue swings in the future." The Legislature and the Governor would appoint commission members. New Assembly Speaker Karen Bass has also announced that she plans to appoint a commission to review the state's tax system. The Governor also borrows from a number of special funds – funds that are earmarked for specific programs and purposes – to help fill the state's General Fund shortfall. Significant loans include \$238 million in loans from transportation funds; \$126.4 million from a variety of regulatory boards and bureaus under the State and Consumer Services Agency; \$50 million from the Restitution Fund, which provides assistance to crime victims; \$17.6 million from several housing-related funds; \$30.4 million from four funds in the Resources Agency; and \$25.7 million from funds in the Health and Human Services Agency, including the Hospital Building Fund.

### **Governor Proposes Deep Human Services and Health Cuts, Borrowing Against Future Lottery Proceeds**

The May Revision includes a number of major policy proposals, most aimed at generating savings to close the budget gap. One exception is the Governor's withdrawal of his proposed early release program that would have released 22,000 "low-risk" inmates prior to the completion of their prison terms. The Governor's January budget scored \$256.4 million in 2008-09 savings from this proposal. The May Revision proposes to:

- Make deep cuts in health and human services programs, including the In-Home Supportive Services (IHSS) Program, eliminating cash assistance and health benefits for certain legal immigrants, and limiting health coverage for low-income working parents.

The additional reductions, which would total \$627 million, are in addition to the cuts proposed by the Governor in January. Of the \$11.4 billion in 2008-09 cuts proposed by the Governor, \$2.9 billion would come from health and human service programs.

- Allow the lottery to engage in new types of games and issue \$15 billion in bonds backed by future lottery proceeds. The Governor announced a plan to “modernize” the lottery and provide it with “operational flexibility” as part of a proposal to borrow \$15 billion using bonds that would be repaid from future lottery sales. The Governor proposes to use bond proceeds to allocate \$1.2 billion per year to education, rather than the 34 percent of lottery sales guaranteed under current law; \$5.1 billion to help close the 2008-09 budget gap; and the remainder to a new reserve. The Governor would ask the voters to approve his proposed changes to lottery operations and the allocation of lottery proceeds in a measure that would appear on the November 2008 ballot. If the voters reject the proposed change or the state is otherwise unable to issue bonds backed by lottery proceeds, a one cent sales tax increase would be triggered and would remain in effect until the balance in the new reserve reached a specified level.
- Restore \$1.8 billion of the Governor’s proposed \$4.8 billion January reduction to K-14 education programs covered by the Proposition 98 guarantee. Under the Governor’s May Revision proposal, funding for K-14 education would be cut by \$3 billion in 2008-09 relative to the Governor’s January workload budget. However, the revised funding level would meet the minimum required by the Proposition 98 guarantee.

### **Adding Up the Numbers**

The May Revision identifies a \$22.3 billion gap between revenues and expenditures in the current (2007-08) and budget (2008-09) years. The Governor increases the identified shortfall by \$2 billion in order provide a modest budget reserve and proposes \$24.3 billion of “solutions” to fill the gap. The Governor proposes to cut spending by \$12.6 billion and proposes \$11.7 billion in other solutions, including \$3.3 billion from the sale of additional deficit financing bonds, \$1.9 billion from an accounting shift, \$5.1 billion from the sale of bonds backed by lottery proceeds, and \$1.4 billion from “other initiatives.”

### **Governor Reiterates Support for Budget Measure That Would Limit Spending, Shift Power to Future Governors**

The May Revision reiterates the Governor’s support for a proposal that would significantly limit the state’s ability to spend available revenues and give future governors sweeping power to cut spending in years when estimated spending lags estimated revenues. A portion of the proceeds of bonds backed by lottery revenues would be deposited in the new reserve created by the Governor’s proposal.

A CBP analysis of past revenue and expenditure data shows that, if the proposal had been in effect prior to the recent budget crisis, it would have significantly limited the state's ability to spend available resources in years of above average revenue growth and would have left the state facing substantial shortfalls in the early years of this decade. This analysis, which will be updated as additional details become available, is on the CBP's website at [www.cbp.org](http://www.cbp.org).

## **Medi-Cal**

The May Revision makes deep cuts to the Medi-Cal Program in addition to the Governor's January proposals, including substantial cuts in eligibility and services. Specifically, the May Revision:

- Maintains the Governor's January proposals to require enrollees to submit paperwork four times annually to retain eligibility for Medi-Cal services, eliminate dental and other benefits for adult Medi-Cal beneficiaries, and reduce payments to most Medi-Cal providers by 10 percent. The Administration estimated in January that half a million Californians would lose coverage if the paperwork proposal were fully implemented.
- Substantially restricts Medi-Cal eligibility for low-income parents with children, which would decrease the number of parents covered by Medi-Cal by approximately 430,000 by August 2011. The May Revision reduces the maximum income level for parents applying for Medi-Cal coverage to 61 percent of the poverty line (\$10,736 for a family of three in 2008). In addition, the Governor would make it more difficult for two-parent families to enroll in and retain Medi-Cal coverage by reinstating a rule that required the family's principal wage earner to work less than 100 hours per month. Because the proposal to reduce the maximum income level affects only those applying for Medi-Cal coverage, and not those already enrolled in the program, the number of parents affected would grow over time. As a result, estimated state savings would increase from \$31.2 million in 2008-09 to \$342.5 million in 2011-12.
- Reduces the services provided to certain legal immigrants – such as those who have been in the US for five years or less – for state savings of \$86.7 million. These immigrants would be eligible for emergency, pregnancy-related, and breast and cervical cancer treatment services, but would not be eligible for preventive services and routine doctors' visits.
- Restricts access to health care services for unauthorized immigrants. Currently, unauthorized immigrants are eligible for emergency services and a limited number of other services, such as postnatal care and treatment for breast and cervical cancer. The proposal would cover these services only if an individual also received emergency services in the same month.

The proposal assumes state savings of \$42 million in 2008-09 by reducing the number of immigrants covered by Medi-Cal by 11,000 in 2008-09. The proposal would not apply to pregnant women.

- Delays implementation of SB 437 (Chapter 328, Statutes of 2006), which would take several steps to make it easier to enroll individuals in Medi-Cal and Healthy Families. These steps include “express lane” eligibility for women in the Women, Infants, and Children program and a pilot program allowing families to self-certify their incomes.
- Increases payments to Medi-Cal managed care plans by \$169.8 million in order to comply with minimum federal requirements.
- Decreases payments to certain hospitals that treat Medi-Cal patients for state savings of \$11.3 million. This reduction builds on the Governor’s January proposal to cut payments by 10 percent to hospitals that do not negotiate their reimbursement levels with the California Medical Assistance Commission (CMAC). The May Revision would further reduce payments for some of these hospitals to a level that is 5 percent below CMAC payments to other hospitals in the region.
- Proposes to contract, on a pay-for-performance basis, with a vendor to attempt to reduce spending on durable medical equipment, such as wheelchairs.

### **Other Health Programs**

The May Revision:

- Maintains the Governor’s January proposals to reduce state support for the Healthy Families Program by reducing payments to the managed care plans that enroll Healthy Families children, placing a \$1,000 annual limit on dental services, increasing the family contributions for certain children, and increasing copayments for non-preventive services from \$5 per visit to \$7.50 per visit for families with incomes above 150 percent of the poverty line.
- Maintains the Governor’s January proposals to reduce state support for a variety of health-related programs, including Regional Centers, which purchase and coordinate services for people with developmental disabilities; the Early and Periodic Screening, Diagnosis, and Treatment Program, which provides periodic health exams, screening, and treatment to certain children; and substance abuse treatment services for nonviolent offenders eligible under Proposition 36, the Substance Abuse and Crime Prevention Act.

## California Work Opportunity and Responsibility to Kids (CalWORKs) Program

The May Revision maintains the Governor's January budget proposals to eliminate cash grants for nearly 200,000 children in the CalWORKs Program. In addition, the May Revision:

- Cuts CalWORKs grants by 5 percent for savings of \$108.2 million in 2008-09. This change would reduce the maximum monthly grant for a family of three in high-cost counties by \$36, from \$723 to \$687. The state last reduced CalWORKs grants in 1997-98.
- Suspends the October 2008 cost-of-living adjustment (COLA) for CalWORKs cash assistance payments, for savings of \$111 million in 2008-09. In February, the Governor signed legislation delaying the July 2008 COLA to October 2008.
- Requires CalWORKs recipients who are not meeting work participation requirements to meet with a county worker every six months in order to assess what services could help increase their participation. The Administration assumes that this proposal would generate savings of \$59.7 million because recipients who fail to attend the meeting without good cause would be dropped from the program.
- Implements a four-month, "pre-CalWORKs" program to provide job services to certain individuals who are eligible for CalWORKs, but who are not employed sufficient hours to meet federal work participation requirements for CalWORKs recipients. The Administration suggests that this approach could help to improve California's work participation rate.
- Uses federal Temporary Assistance for Needy Families (TANF) block grant funds in place of state funds for the following programs: student financial aid through the Cal Grant Program (\$223 million), the Juvenile Probation Program (\$151.8 million), and Emergency Assistance Foster Care (\$50.4 million). The May Revision also increases the transfer of TANF funds to the Department of Developmental Services by \$22.2 million, which replaces an equivalent amount of state dollars. The Administration states that these changes are needed in order to meet the state's maintenance-of-effort (MOE) spending requirement "without increasing overall state General Fund expenditures."
- Uses \$5 million in TANF dollars to fund the California Alliance of Boys and Girls Clubs (CABGC), which would allow the state to count an estimated \$88 million in CABGC expenditures toward the state's MOE spending requirement. This change would increase the likelihood that California would receive a federal credit for "excess MOE" expenditures – those above the minimum threshold required by the federal government – that would lower the state's required work participation rate for CalWORKs recipients.

- Eliminates \$40 million in “Pay for Performance” incentive funds for counties in 2008-09. Estimates that the CalWORKs caseload would drop from 460,119 in 2007-08 to 386,871 in 2008-09 (15.9 percent) if the Governor’s proposed changes are enacted.

### **Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program**

The May Revision maintains the Governor’s January budget proposals to suspend state COLAs for SSI/SSP grants in 2008 and 2009. In February, the Governor signed legislation delaying the June 2008 state COLA to October 2008; however, this measure maintained the state COLAs in 2008 and 2009. SSI/SSP grants help 1.3 million low-income seniors and people with disabilities meet basic living expenses. In addition, the May Revision:

- Does not “pass through” to SSI/SSP recipients the January 2009 federal SSI COLA for savings of \$108.8 million in 2008-09.
- Eliminates the Cash Assistance Program for Immigrants (CAPI) for savings of \$111.2 million in 2008-09. CAPI provides state-funded cash assistance to approximately 10,000 elderly and/or disabled legal immigrants who are not eligible for SSI/SSP payments due to their immigration status.

### **In-Home Supportive Services (IHSS) Program**

The May Revision withdraws the Governor’s January budget proposal to reduce the number of hours provided for certain non-medical domestic services – including meal preparation, laundry, and errands – by 18 percent in 2008-09. Instead, the May Revision:

- Eliminates domestic and related services for IHSS recipients with less severe impairments, for savings of \$52 million in 2008-09. This change would cut the hours of IHSS services provided to approximately 84,000 IHSS recipients – 20 percent of all recipients – from 73.8 hours per month to 52.2 hours per month.
- Caps the state’s contribution toward the wages of IHSS workers at the state’s minimum wage – currently \$8.00 per hour – plus \$0.60 per hour for benefits, for savings of \$186.6 million in 2008-09. Currently, the state shares – with the federal and county governments – in combined wage and benefit levels of up to \$12.10 per hour for IHSS workers. Counties could continue to provide wages and benefits above the proposed level, but would have to use their own dollars to make up for lost state funding.
- Requires IHSS recipients with less severe impairments to begin paying their own Medi-Cal “share of cost,” for savings of \$27.7 million in 2008-09. The state has paid these individuals’ share of cost since 2004.



Approximately 7,100 low-income IHSS recipients would be required to pay an average of \$427 per month under this proposal.

## **Other Human Services**

The May Revision maintains the Governor's proposed across-the-board reductions for a number of programs that assist children and families, including the Child Welfare Services Program, the Foster Care Program, the Adoption Assistance Program, and the California Food Assistance Program. In addition, the May Revision includes an increase of \$9.4 million to pay a federal penalty for the state's failure to meet a performance measure related to the stability of children placed in foster care.

## **Child Care and Development Programs**

The May Revision maintains the Governor's January budget proposals to reduce state funding for child care and development programs in 2008-09. In addition, the May Revision reduces the maximum amount that certain child care providers could be paid by lowering the Regional Market Rate (RMR) reimbursement "ceiling" from the 85th percentile to the 75th percentile, beginning January 1, 2009. The Administration also proposes to delay the 2008 RMR survey to January 2009 and conduct the survey every two years, rather than annually.

## **Proposition 98**

The May Revision restores \$1.8 billion of the Governor's proposed \$4.8 billion January reduction to K-14 education programs covered by the Proposition 98 guarantee. Under the Governor's May Revision proposal, funding for K-14 education would be cut by \$3 billion in 2008-09 relative to the Governor's January workload budget estimates. However, the revised funding level would meet the minimum required by the Proposition 98 guarantee. The May Revision funding level would not require suspending the Proposition 98 guarantee due to the additional funding proposed by the Governor and the fact that the minimum guarantee is anticipated to be lower than was projected in January.

## **K-12 Education**

The May Revision:

- Reflects an increase in 2008-09 spending covered by the Proposition 98 guarantee relative to 2007-08, from \$56.6 billion to \$56.8 billion. This results in a \$101 increase in 2008-09 Proposition 98 K-12 per pupil spending, from \$8,509 to \$8,610.
- Reflects a net increase in 2008-09 revenue limit funding of \$85.3 million due to an increase in projected enrollment above the Governor's January budget estimate.

The May Revision also increases 2007-08 revenue limit funding by \$50.5 million due to an increase in estimated enrollment relative to the Governor's January budget. Revenue limits provide general purpose funds for schools.

- Reflects a decrease in local property tax revenues. The May Revision increases funding for revenue limits and special education apportionments by \$179.1 million in 2007-08 and \$521.3 million in 2008-09 to backfill for the loss of local revenues.
- Maintains the Governor's January budget proposal to eliminate 2008-09 COLAs for school districts and county offices of education. The May Revision also maintains the Governor's proposal to change the formula used to calculate COLAs for K-12 education programs.
- Maintains the Governor's January budget proposal to reduce funding for a number of categorical programs. In order to achieve these savings, the Governor proposes to eliminate COLAs and reduce rate allocations. Categorical programs include class size reduction, instructional materials, home-to-school transportation, and various career technical education programs.
- Proposes to use Public Transportation Account dollars to pay for up to \$592.9 million in 2008-09 home-to-school transportation costs.
- Reduces deferred maintenance funds by \$222.6 million and eliminates the local matching requirement for the deferred maintenance program in 2008-09. School districts are required to develop a maintenance plan and allocate local funds to receive matching funds from the state.
- Restores \$234.1 million of the reduction in special education funding proposed in the Governor's January budget. The revised funding level would meet the federal maintenance-of-effort requirement for special education programs.
- Provides \$100 million to fund school facility emergency repairs as required by the settlement agreement in Williams vs. California.
- Modifies the Governor's January budget proposal that reduces the state's contribution to the State Teachers' Retirement System (STRS) for retiree purchasing power protection. In January, the Governor proposed reducing the state's contribution from 2.5 percent to 2.2 percent of payroll. The May Revision modifies the proposed state contribution to 2.25 percent
- Proposes to delay and reduce yearly payments toward the \$210 million in interest owed as a result of a 2007 court decision in the STRS lawsuit. The Governor's January budget allocated \$80 million in 2008-09 as the first of three payments toward interest owed.

The May Revision allocates \$52.6 million in 2009-10 as the first of four equal payments. The court awarded STRS interest payments based on \$500 million the state withheld from the STRS inflation protection program in 2003-04.

- Proposes to reauthorize provisions adopted in 2003-04 that provide flexibility to school districts with regard to how they use their funds. These provisions include allowing school districts to reduce a variety of required reserves to allow districts to use more funds for general purposes.

## **Community Colleges**

The May Revision:

- Increases 2008-09 Proposition 98 funding for California Community Colleges by \$167.2 million, including \$138.7 million to backfill for lower than previously anticipated local property tax revenues and \$35.5 million for growth in apportionments. The May Revision also provides \$69 million in 2007-08 funding to backfill an anticipated decline in local property tax revenues.
- Provides community colleges flexibility to transfer funds among categorical programs “to allow local priority needs to be better addressed.”

## **Higher Education**

The May Revision restores \$98.5 million in funding for the University of California (UC) and \$97.6 million for the California State University (CSU). The proposed augmentation would result in a \$233.4 million proposed 2008-09 reduction for the UC and a \$215.3 million proposed reduction for the CSU when combined with the cuts in the Governor's January budget.

## **Student Aid Commission**

The May Revision uses \$223 million in federal TANF block grant funds to replace state funds to pay for financial aid for TANF-eligible students, resulting in an equal amount of state savings.

## **Resources**

The May Revision reverses the Governor's January budget proposal to cut funding for the Department of Parks and Recreation by \$13.3 million, which would have resulted in the closure of 48 state parks and reduced the number of lifeguards at a number of state beaches. The May Revision includes an increase in state park fees that is projected to raise \$1.5 million to partially offset the lost savings.

## **Corrections**

The May Revision:

- Drops the Governor's January budget proposal to release 22,159 non-violent inmates before their scheduled release dates. The Governor states that his early release proposal is no longer necessary due to approximately \$300 million in Department of Corrections and Rehabilitation savings attributable to a lower than previously anticipated inmate population, "the effectiveness of parole reforms and rehabilitative efforts to date," and other measures.
- Increases funding for medical care for inmates by \$8.6 million in order to comply with the Plata lawsuit, which challenged the quality of medical care in state correctional facilities. The Governor also proposes legislation that would allocate \$6 billion in lease revenue bond authority for projects proposed by the federal court-appointed receiver, including the construction of new medical facilities to serve up to 10,000 inmates, and provide \$100 million from the state's General Fund and \$900 million in lease revenue bond authority to improve health care facilities at existing correctional facilities.
- Maintains the Governor's January budget proposal to place certain inmates and parolees on "summary parole" for savings of \$173.6 million. Summary parolees would have no active supervision, but would be subject to searches and drug testing.

## **Transportation**

The May Revision proposes to use \$828 million in public transportation funds to support \$593 million in K-12 home-to-school transportation costs and \$235 million in debt service on transportation bonds. Both of these costs traditionally have been paid from the state's General Fund. These funds would come from increased "spillover" gas sales tax revenue, higher than anticipated diesel tax collections, and maintaining funding for the State Transit Assistance (STA) Program at 2007-08 levels. Spillover funds are generated when gas prices rise at a faster rate than prices for other goods. The Governor plans to seek legislation maintain STA funding at its 2007-08 level.

## **Emergency Response Initiative**

The May Revision continues the Governor's January budget proposal to establish the Emergency Response Initiative, formerly named the Wildland Firefighting Initiative, to respond to emergencies and disasters. The Governor proposes to fund this initiative through a surcharge imposed on all residential and commercial property insurance policies based on the likelihood of risk due to earthquakes, fires, or floods. A 1.40 percent surcharge would be assessed on structures in high-risk areas and a 0.75 percent surcharge would be assessed on structures in low-risk areas.

The May Revision projects fee receipts of \$69.3 million in 2008-09, \$35.6 million less than the savings assumed in the Governor's January budget due to the delayed implementation of this proposal.

The Governor's lottery proposal is already considered a dubious proposition and is being met with severe opposition. However, there are also many questions about how the proposal would function in reality. For those answers, we refer you to the following, where the Sacramento Bee published an excellent question and answer session in their May 15, 2008, publication that attempts to shed some light on the issue:

Gov. Arnold Schwarzenegger is proposing to borrow against lottery proceeds to help address the state's budget problems. Here's a quick look at the plan:

**Q:** How would the borrowing work?

**A:** The state would seek investors to lend \$15 billion secured by future earnings from lottery games the state hopes would be improved and more lucrative. Investors would be repaid from lottery funds over 32 years.

**Q:** What would the state do with the money?

**A:** It would go into a rainy day fund the governor hopes to create in a separate ballot measure. About \$5.1 billion could be used to help balance the budget for the fiscal year beginning July 1. The rest could be used over the next two years.

**Q:** How would the games change?

**A:** The games themselves probably wouldn't change much, but the lottery's current rules would be changed to allow broader promotion, bigger and more frequent prize payouts and other incentives to create more player interest.

**Q:** What would happen to the money for schools?

**A:** Under the proposal, the amount schools get would be capped at what they have received in recent years – about \$1.2 billion a year of the \$3.3 billion in total lottery revenues. The \$1.2 billion is not guaranteed, however, as the investors must be paid first from lottery proceeds under the deal. Finance Director Mike Genest acknowledged the schools would have "some risk, but we don't think it's a practical problem." As for the \$1.2 billion-a-year cap, Genest said, "Lottery revenues aren't growing much anyway so (schools) aren't giving up much there. The lottery has never been a boon to schools."

**Q:** Do I have to vote on it?

**A:** Yes. Voters will have to approve a November ballot measure to change the state constitution, which currently says 34 percent of lottery revenues – the amount left after paying prizes and overhead – must go to schools.

**Q:** What would happen if the ballot measure didn't pass?

**A:** A temporary 1-cent sales tax increase would be triggered in 2009 for up to three years to raise the \$15 billion for the rainy day fund.

**Q:** What would happen after three years?

**A:** The tax would end. The proposal assumes the economy will have improved enough by then to feed the rainy day fund in good years, as Schwarzenegger has proposed in his budget reform measure. After the tax ends, taxpayers would get a full rebate using a formula yet to be determined.

**Q:** What if the state couldn't sell the bonds?

**A:** The administration says it's confident there will be a market on Wall Street for them. Similar bonds have been sold by the state and counties since 2000 that allow governments to raise money now and pay it back with future revenues it collects from the huge settlement between states and the tobacco industry.

**Q:** How would the "rainy day" fund be used?

**A:** The administration is still negotiating and may have specifics by next week. But the basic idea is twofold: The governor would have more power to make midyear cuts, and the rainy day fund would accumulate money in good years for use in bad years to even out the ups and downs of the economy. Because the state is experiencing a down period now, the fund would be jump-started with the \$15 billion from the lottery transaction.

**Q:** Who will oppose this on the ballot?

**A:** It's too early to say for sure, but Indian tribes with casinos may not be thrilled with increased competition from the lottery, and teachers unions fear the budget reform measure would put future school funding at risk. Both groups have a history of spending whatever it takes to have their way on the ballot.

Now that the May Revision has been released, the "true" budget deliberations and negotiations can begin. We will be very engaged in the process and will inform you of the vital proposals as they develop.

## **Legislation**

The Legislature is about to pass two important deadlines regarding the life cycle of legislation. On May 22, 2008, the Legislature's Appropriation's Committees will meet simultaneously to consider their respective "suspense" files. The suspense file is where legislation deemed to cost the state \$150,000 or more is placed for one, large hearing. Given the fiscal condition of the state it is expected even more bills than usual will be held in the committees, thus preventing them from moving forward for future consideration. In addition, all legislation introduced this year must pass their respective House of Origin (i.e. Assembly bills must pass the full Assembly and Senate bills must pass the full Senate) no later than the end of the month.

It is after these deadlines that the bills considered legitimate proposals worthy of notice will be separated from those bills that never really had a chance at passage to begin with.

### **Eminent Domain**

As we report in all of our updates, two important and competing measures are on the ballot for California's consideration on June 3. Propositions 98 and 99 both relate to eminent domain. One would severely restrict, if not eliminate entirely, the ability of the public to utilize eminent domain while the other would codify the best practices of eminent domain in California and is supported in large part by the League of California Cities. We continue to encourage you to contact the League's office should you want to become more involved. And as a point of reference, George Skelton wrote a quality article in the L.A. Times on May 1, 2008, regarding these initiatives.

### **New Leadership**

Assemblymember Karen Bass officially took over as Speaker of the Assembly on May 13, 2008. It is very likely that she will also make changes in the Leadership structure of the Assembly once she is completely installed. We will brief you on those changes as they occur.

As always, please do not hesitate to contact us with any questions or comments you may have.