



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: June 17, 2008

SUBJECT: Consideration of the State Budget and Legislative Update

RECOMMENDATION:

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

June 17, 2008

To: City of Manhattan Beach

Fm: Rice/Englander & Associates

RE: SACRAMENTO UPDATE

State Budget

Sacramento has now begun the serious deliberations concerning the approval of a balanced state budget. In our last report, we highlighted the major components of the Governor's May Revise, which updated the Governor's proposed budget released in January 2008, based on the most recent economic news and indicators. Since January, the budget deficit has swelled to more than \$15 billion, and the Governor offered many proposals to close the budget deficit. His most innovative, and controversial proposal, is to securitize revenues from the state lottery (approximately \$12 billion over a five year period) to offset the deficit in the budget year. Should the revenues not materialize to the level anticipated, a temporary \$.01 sales tax would automatically go into effect to ensure the necessary level of funding be available. Publicly, the leadership in the Senate and the Assembly have heavily criticized the proposal, although there still is some interest in the idea within the Capitol. This may very well be a component of the overall budget solution.

Since your last report, the Senate and the Assembly "closed out" and passed their individual versions of the state budget, and moved the discussion to the Joint Legislative Budget Conference Committee. This committee is composed of three members from each House, and their responsibility is to compromise on the differences between the Senate and Assembly versions of the budget (on those items where there is a funding difference), as well as to discuss broader concepts that could potentially develop a balanced budget that two-thirds of the Legislature can vote for. The Committee will work day and night, weekdays and weekends, until they either reach a compromise proposal that will work for the Legislature, or until their meetings no longer produce results. At that time, the "Big 5" will take over all the negotiations and present a budget to the Senate and the Assembly to vote on should an agreement be reached.

The Big 5 is comprised of the Majority and Minority leaders in the Senate and the Assembly, as well as the Governor. Those meetings focus on the largest and most controversial aspects of the budget in the hopes of reaching compromise when the Legislature as a whole is unable to. These meetings have already begun, but no "real" actions have come from them.

Last week, the Assembly offered proposals that would generate approximately \$6 billion in new revenues through the imposition of new taxes to offset the state's deficit, and thereby reduce the need to make severe cuts to programs. The Senate followed suit a few days later by advocating for nearly \$12 billion in new taxes. Both proposals were automatically rejected by the Legislature's Republicans as well as by the Governor.

At this time, there is no clear path for closure of the state's deficit. While each party has its preferred mechanisms, most of those ideas are summarily rejected by the opposing party almost upon introduction. For instance, the Legislature's Democrats believe that new revenues (taxes and the closing of existing tax breaks) must be a part of the budget this year. However, the Republicans refuse to entertain this notion as they argue that Californians are already taxed enough as it is, and placing new burdens on them, especially in the current economy, would be too harmful to families up and down the state. Conversely, the Republicans would like to cut or eliminate state programs to save money, yet the Democrats believe many programs are already under funded and any more severe cuts or elimination to programs on a large-scale level would harm Californians by not providing necessary and vital services.

While the state is Constitutionally mandated to have a balanced spending plan in place by July 1, that deadline is often passed. There are rumors that the Legislature's leadership will attempt a vote on the budget prior to July 1 in an attempt to show progress on the budget prior to the deadline, but no one believes an accord will be reached any time soon. At this time, it appears we are several months away from a compromise being achieved, with the greatest impetus for action being the fact that the state is expected to run out of cash somewhere around the end of August, coincidentally, also the time the Legislature is expected to shut down for the rest of the year. We will continue to update you as progress and information is made available.

Legislation

Since your last update the Legislature has passed two important deadlines that directly relate to the fate of legislation. First, the Legislature's Senate and Assembly Appropriation's Committees met to determine what bills with fiscal implications would continue to move through the process. Hundreds of bills were defeated at this time as the leadership of the Legislature determined that given the fiscal condition of the state bills with revenue implications should not be allowed to move forward. After that deadline, the Legislature was required to pass all bills from their respective House of Origin by the end of May. Many controversial bills were defeated at that time as well.

These deadlines serve the purpose of extensively paring down the bills that really never had a chance of passage to begin with. From this point on, the bills that are still alive are considered legitimate proposals and will be heavily scrutinized until the last day of the legislative session, August 31. We will continue to work with the City on those items with the most interest.

As always, please feel free to contact us with any questions you may have.