



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: July 15, 2008

SUBJECT: Consideration of the State Budget and Legislative Update

RECOMMENDATION:

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

July 15, 2008

To: City of Manhattan Beach

Fm: Rice/Englander & Associates

RE: SACRAMENTO UPDATE

State Budget

The Joint Legislative Budget Conference Committee recently concluded its work on trying to craft a proposal that would be acceptable to 2/3 of the Capitol membership. Unlike years past, the Committee did not finalize a "real" document based on compromise and negotiation with the Governor and the Republicans, but instead offered a fairly Democratic proposal, with the biggest actions taken to reduce an estimate \$15.2 billion state deficit coming from significant new tax increases, nearly \$10 billion in total. The breakdown of the Democrats new tax proposal follows:

■ Income tax on wealthy

- Additional Revenue: \$5.6 billion
- Who Pays: The state income tax rate for joint filers whose taxable income is above \$321,000 is now 9.3 percent. The Democrats' proposal would increase the rate to 10 percent for joint filers who earn at least \$321,000 and 11 percent for those who earn more than \$642,000.

■ Deductions on net losses

- Additional Revenue: \$1.1 billion
- Who Pays: Suspends the deduction for net operation losses for corporations. Companies that experience a loss now are allowed to take a deduction for the same amount in the following year.

■ Suspend tax adjustments

- Additional Revenue: \$815 million
- Who Pays: Suspends certain tax adjustments for all income brackets, resulting in a slight increase of income taxes for all individual taxpayers. Higher-income taxpayers would pay more income taxes. For example, a taxpayer whose taxable income is \$50,000 would see an increase of about \$34 a year, while a person whose income is \$97,000 would pay about \$180 more.

■ Corporate tax

- Additional Revenue: \$470 million
- Who Pays: The top corporate tax rate would be increased from 8.84 percent to 9.3 percent. Democrats say the change would restore the top rate to what it was before being reduced in 1997.

■ **Dependent credit**

-- Additional Revenue: \$215 million

-- Who Pays: The dependent credit for taxpayers whose adjusted gross income is more than \$150,000 would be reduced from \$294 per child to \$94 per child.

■ **Tax amnesty**

-- Additional Revenue: \$1.5 billion

-- Who Pays: Institute an amnesty program that allows individuals and companies that have fallen behind on their tax payments to pay them without penalty.

The Assembly Republican Caucus issued a press release the day after the unveiling of the budget through Assemblymember Doug LaMalfa, outlining some of their concerns with the budget. That release follows:

Assemblyman Doug LaMalfa, R-Richvale, today responded to Democrat legislators' new plans to raise taxes on Californian families and cut funding for local law enforcement. The Democrats announced their plan last evening after the legislative budget conference committee adjourned.

"I'm appalled that rather than take a hard look at state spending, Democrats in Sacramento would prefer to raise taxes on California's families and cut public safety programs at the same time," said LaMalfa. "Public safety is the number one priority of government, and we won't allow the safety of Californians to be held hostage in exchange for even more liberal spending and taxes, especially in the current economy."

LaMalfa said he was especially concerned about Democrat cuts that would eliminate state funding for local law enforcement, including the Rural Sheriff's Program, Booking Fees, Mentally Ill Offender's Program and Crime Lab Funding. The Rural Sheriff's Program alone provides a major funding boost to help rural law enforcement with equipment and staff costs, while the other programs aid specific local law enforcement activities.

Not only does the Democrats' proposal make major cuts to local law enforcement across the state, it includes tax hikes aimed specifically at California families. The Democrat plan would put new limits on the Child Dependent Tax Credit, which provides parents with a small tax credit in order to help them provide for their children.

"After months of dancing around the issue, they've finally made it official: the Democrats want to raise your taxes to support their irresponsible spending," added LaMalfa. "The fact that they've singled out families for higher taxes shows just how misguided they really are."

New taxes on parents will make it even more difficult to raise children in California, especially when families are paying more and more for gasoline, groceries and other necessities.”

As for where the Governor is regarding the Democrats’ proposal, he offered the following statement:

“You know, I have always been against tax increases,” he said. “But I always want to keep everything on the table, because you cannot go into negotiations and say don’t talk to me about this, don’t talk to me about that. You have to be open-minded, and that’s the only way you can get a compromise done. So I’m open-minded, but I’m against tax increases. All right?”

So what this all means is that the parties are perhaps farther apart than when they began the Joint Legislative Budget Conference Committee negotiations more than a month ago. As mentioned earlier, the newest budget proposal is, for all intents and purposes, a Democratic document with little to no input from the Republicans. Because California requires a minimum of a 2/3 vote for passage of the budget, and the Democrats do not have that threshold on their own either in the Senate or the Assembly, there still is much work to be done. And to put a finer point on the disparity between the parties, the leader of the Assembly Republican Caucus, Assemblymember Mike Villines, has said his caucus would like approximately \$10 billion in cuts and transfers, leaving about a \$5 billion gap that would need to be eliminated through fees or the like. Therefore, the breakdown is the Democrats would like about \$10 billion in new taxes and revenues, with about \$5 billion in cuts and the Republicans would like the exact opposite.

While there does not seem to be much consolation in the stalemate, with no clear end in sight, we are pleased to report that local government funding continues to be “off the table”. We will continue to work hard to ensure this continues to be the case.

Legislation

Typically, the Legislature is on vacation for July with no work being done in Sacramento. However, with the budget delay, the respective Appropriation’s Committees are continuing to work, albeit with the vast majority of the bills going to their “suspense” files. No policy committee work is being done, and will not resume until August.

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