



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: October 21, 2008

SUBJECT: Consideration of the State Budget and Legislative Update

RECOMMENDATION:

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

October 21, 2008

To: City of Manhattan Beach

Fm: Rice/Englander & Associates

RE: SACRAMENTO UPDATE

State Budget – Now What?

As you know, the state has had a “balanced” budget in place for approximately six weeks, yet there is already serious concerns about the assumptions the final budget was premised upon. With every budget, the state must make reasonable assumptions of revenues and expenditures in order for policy makers to make reasonable determinations from which to vote upon. There are always discrepancies, either positive or negative, after any budget is signed based on the changes in the economy. However, given the nation’s and the state’s continued economic woes, it is estimated the state is already \$3 billion below projections, with the strong possibility that the deficit will increase substantially by next year without serious intervention.

The Governor and the top four legislative leaders have been meeting regularly to discuss the budget imbroglio, yet no decisive actions have come as a result of those meetings. Oddsmakers place a 50/50 chance that the state will convene a special session before January to consider the budget, but no strong signals have yet to emerge indicating that possibility. However, many around the state are calling for just such a session. George Skelton of the Los Angeles Times wrote a scathing rebuke of the Legislature’s actions, or in this case, inactions concerning the budget mess on October 16, 2008:

California leaders dither as the fiscal picture grows bleaker and bleaker

SACRAMENTO — There they go again -- the governor and Legislature, standing by gawking as the state begins to roll off a cliff.

No sign of the governor calling the Legislature into a special session to halt another runaway deficit, the latest projected initially at \$3 billion for the current fiscal year.

The excuse this time was that the Legislature could not be trusted to behave itself while Treasurer Bill Lockyer was trying to lure investors into a bridge loan -- \$4 billion in revenue anticipation notes needed to help tide over the state until the April income tax season.

The lawmakers' politicking and paralyzes could spook investors leery of a dysfunctional state Capitol, the theory went.

"If they hold dueling press conferences and get into a food fight, it might be bad PR," Lockyer told me last week.

That's what Gov. Arnold Schwarzenegger and legislative leaders also were hearing from bond attorneys. And it's all the rationale they needed to procrastinate, as usual.

Maybe because the Legislature wasn't in session this week -- but much more likely because people saw the opportunity for a timely, secure investment -- those revenue anticipation notes were practically all gobbled up by individual buyers on the first two days they were offered. By late Wednesday, \$3.9 billion worth of the notes had been sold. And Lockyer decided to increase the sale size to \$4.5 billion.

Schwarzenegger even bought \$100,000 worth. "Good, safe investments," he called them.

So that should quash the rationalization for delaying the hard decisions about how to honestly balance the books.

But there's always some excuse for not mopping up red ink. First, the lawmakers have to wait for the April tax take to fully understand the problem. Then they must wait for the governor's May revision of his budget proposal. Wait until the summer heat reaches 100. . . .

Now they wait for the notes to sell. After that there'll be the election. Then the holidays. A new Legislature. Pick it up in January.

Predictably, the Capitol's record 85-day tardiness in producing a state budget is not an issue in any competitive legislative race this fall.

That's because -- despite the national political drama, and rock-bottom public approval rating of the Legislature -- there are very few competitive legislative races. Blame the Legislature's gerrymandering of districts to make them safe for incumbents and their parties. No incumbent is in a tight race. No lawmaker is being held accountable for legislative fiscal irresponsibility.

It's an argument for Proposition 11, a ballot measure sponsored by good government groups that would take redistricting away from the Legislature and hand it to an independent commission.

Schwarzenegger, a strong supporter of Prop. 11, could accentuate the case for redistricting reform by calling the Legislature into special session. It would be a no-risk, win-win move.

If the Legislature didn't produce -- if it innately fell into gridlock -- that would illustrate clearly the need for legislative reform, starting with Prop. 11.

But if the lawmakers did perform, the governor and all of California would be better off.

"The sooner they do whatever -- raise taxes, cut spending, a combination of both -- the easier it is to do it," says Lockyer, a former Senate leader. "The cliff gets higher the longer they wait."

Lockyer expects to wrap up the sale of notes by Friday. He anticipates offering another \$2.5 billion worth in winter. And unless there's a budget fix by then, he says, selling those notes "might not be so easy."

The options are the same as they've always been: cut, tax, borrow, use gimmicks or plug in phony numbers. The latter three got the state into its hole.

Cutting means disrupting education in the middle of the school year. It means reducing the number of poor people receiving Medi-Cal healthcare and/or eliminating services. It means releasing prisoners.

In the budget signed just last month -- the one already in the red -- between \$7.6 billion and \$9.6 billion in spending was cut, depending on whose figures are used and what's counted.

Republicans balked at any general tax increase, although some corporate loopholes were temporarily narrowed in exchange for eventual significant widening.

The main revenue option still seems to be a temporary sales tax increase, as advocated by Schwarzenegger. But there also are two other ideas floating: extending the sales tax to services and imposing a depletion tax on oil when it's pumped from the ground.

If Republicans won't raise taxes, the GOP governor this time should pressure them to declare what they're willing to cut besides welfare.

There's also another option: borrowing from transportation and local government accounts. But neither is a good idea during a recession, when government should be priming the pump.

If for no other reason, there could be a special session to expedite the flow of public works money from the \$43 billion in infrastructure bonds approved by voters two years ago.

The Capitol crowd also could unite with other states, as suggested by California economist Stephen Levy, to lobby the federal government for an anti-recession package to help maintain state and local programs and public works projects. House Speaker Nancy Pelosi (D-San Francisco) and Democratic presidential candidate Barack Obama are talking that up.

The governor held a teleconference Wednesday with legislative leaders. The lawmakers were briefed on the wildfires and the note sales. But there was no talk of a special session, according to the governor's office.

They're all wasting time. It's time to head off a fiscal disaster. Time to stop the state from going over the cliff.

Based on our conversations with those close to the discussions, it appears the reason for inactivity at this time is complex. First, there was a reason the budget was delayed for 85 days, and that is the fact that both the Republicans and the Democrats were so entrenched in their respective positions on how to solve the budget, that returning for those discussions would again, prove nearly pointless as Republicans will continue to oppose revenue increases and the Democrats will continue to refuse any more cuts to services. The second, yet conjoined factor, is the fact that there is an election in approximately two weeks, with legislators around the state battling for either election or re-election. If there is to be a special session on the budget before January, it is likely it would not be convened until late November, or early December, when those elected in November would be sworn in. At this point, it appears inevitable that a special session on the budget will be called, it is just more a matter of timing now.

Manhattan Beach and its local government brethren should be concerned when the Legislature does begin considering corrective budgetary actions. We fought long and hard to preserve Proposition 1A and Proposition 42 revenues this last go around, and were successful in that endeavor. However, should the state's revenues continue to plummet like the analysts predict, we estimate those sources of revenues would be ripe for the taking by Sacramento. We must remain vigilant to protect those resources.

Legislation

As you know, the Legislature is shut down for the remainder of the year. Since we just concluded the second year of the Legislative Session, all bills introduced the past two years are "dead". We will begin anew in January. Therefore, if there are any policy or revenue changes to state law that Manhattan Beach would like to see enacted in the future, now is the time to begin those discussions.

Now that the Session has closed, the Senate Local Government Committee has released its "Greatest Hits" memorandum, an annual event done by the Committee to highlight the major bills, in their opinion, that either related to local government or was heard by their committee. We always find this memo interesting and have attached the memo for your perusal and edification.

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