



Agenda Item #: _____

Staff Report

City of Manhattan Beach

TO: Honorable Mayor Cohen and Members of the City Council

THROUGH: Geoff Dolan, City Manager

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

DATE: May 5, 2009

SUBJECT: Consideration of the State Budget and Legislative Update

RECOMMENDATION:

Staff recommends that the City Council receive and file the May 2009 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 2009 Budget and Legislative Update from Tony Rice is attached.

May 5, 2009

To: City of Manhattan Beach

Fm: Rice/Englander & Associates

RE: SACRAMENTO UPDATE

State Budget

Like a broken record, I unfortunately have to continue to report on the dismal nature of the California State Budget. We reported in your last update that the state is already facing an estimated \$8 billion deficit that developed just mere weeks after the budget was signed in February. Adding to the malaise for this report, California's unemployment rate is now over 11%, turnover of home sales are strong but at significantly reduced prices from just one year ago and the overall nature of the business sector continue to show slow growth across the board. All of these factors are now contributing to the fact that California is expected to receive about \$1.5 billion less in tax collections for the month of April than was previously projected. Considering all the economic indicators and the history of California we feel safe in reporting that California will, at a minimum, face a \$10 billion shortfall for 2009-10.

At this time, the Legislature is forging trying to take any immediate corrective actions as the outcome of the May 19, 2009, special election will either hold the deficit stable, or push the shortfall ahead by nearly \$6 billion. On the ballot are six proposals for voters to consider with a couple of the initiatives proposing almost \$6 billion in solutions to the state budget, the largest chunk being \$5 billion for the securitization of future lottery revenues. Budget writers have already scored that \$5 billion into the current budget year projections, so should the voters reject that proposal, the state "loses" \$5 billion the second the initiative officially fails.

At this time, all the propositions continue to be struggling in the polls, except that is, for Proposition 1F, which would eliminate the ability to raise legislators pay when the state is in deficit. Unfortunately for the supporters of the initiatives, there has been an amazing lack of cohesion and support for the measures, thus making it difficult to present an organized, supportive front. Should the proposals fail and the state plunges to the roughly \$20 billion deficit level, no programs will be safe from the scrutiny of cuts considering it would be highly unlikely that the Republicans would vote for additional taxes. In real terms, it would be likely to expect additional cuts to education, health and welfare programs, borrowing of critical funding from local governments as well as the complete elimination of some programs.

In our ongoing conversations with the budget committees in both Houses of the Legislature, we have been given assurances that should the state's deficit be \$10 billion or less, the state can reasonably handle that number without drastic implications to programs. We were told through sources that seek to remain anonymous, that \$8 billion, plus or minus, can be "easily" handled. But that if the deficit is significantly higher, drastic measures will need to be taken.

Federal Stimulus

Federal stimulus funds continue to be the one bright spot in an otherwise dismal funding picture for the state. The revenue from the federal government is beginning to make its way to the state, and state departments and agencies are scurrying to put regulations and guidelines into place to get the money out. The League of California Cities continues to regularly update its manual on all the pots of funding and what department and/or agency is in charge. Please feel free to call upon us should there be any questions about this.

Legislation

The Legislature has been plodding its way through the first policy committee deadline the past couple of weeks. What this means is that all the legislation that would like to continue moving through the process must be dealt with by May 1, 2009. So in regular speak, there has been numerous, lengthy meetings by all the policy committees the past three weeks trying to accommodate the deadline. The first policy committee is usually just pro forma as one does not normally see a lot of proposals being killed or significantly amended. The next committee, the respective appropriations committees, is where most of the proposals will be killed or amended. As the state continues to deal with significant budget shortfalls, the leadership in both the Senate and Assembly have quietly informed other legislators that legislation that would require any type of funding will be severely scrutinized, much more so than in previous. It is likely that by the middle of June, two-thirds or more of the current legislative proposals will be dead. We will continue to highlight the major proposals with local impact and report, advise and intervene as necessary.

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