



City of Long Beach
Working Together to Serve

Memorandum

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Date: June 16, 2010
To: State Legislation Committee Members
From: Patrick H. West, City Manager
Subject: UPDATE: FY 11 State Budget

Attached for your information is the League of California Cities' update on the state's FY 11 budget. This analysis includes an overview of the Governor's May Revise, as well as alternative budget proposals produced by Senate and Assembly Democrats.

For additional information, please contact Tom Modica, Manager of Government Affairs at 8-5091.

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Budget Conference Committee Begins Work

Cities Encouraged to Remain Vigilant

Understanding the state budget process can be challenging especially as various proposals are introduced and the key players begin to negotiate. Rarely are the Constitutional deadlines for the Legislature to adopt a budget (June 15) and for the Governor or sign it (July 1) actually met. With the Legislative Budget Committee just beginning its work this week, the League has prepared the following summary of the various proposals circulating.

Much has transpired since Gov. Arnold Schwarzenegger released his Budget Revise on May 14. After the Legislative Analyst Office (LAO) issued its analysis of the Governor's proposals along with various recommendations, Senate Democrats and Assembly Democrats, led by Speaker John A. Pérez, produced alternative proposals. Senate and Assembly Republicans have largely supported the Governor's direction on cuts rather than tax increases.

Governor's May Revise

As expected, the Governor and his Director of Finance Ana Matosantos delivered sobering news with the release of the May Budget Revise. The state's deficit is currently estimated at \$19.1 billion (comprised of a \$7.7 billion shortfall in the current year, a \$10.2 projected deficit in the budget year beginning July 1, and a reserve of \$1.2 billion). Tax receipts are less than projected and the state has not even received half of the \$7 billion in federal assistance requested by the Governor.

A Governor's spokesperson acknowledged to reporters that while the budget proposal doesn't include new taxes, it does have "terrible cuts."

The May Revise is available online on the Department of Finance [Web site](#).

County-operated social service programs would suffer severely under the Governor's proposed solutions. The state's welfare program, CalWORKS, is proposed for elimination. State workers would be required to absorb a salary reduction of 5 percent, a monthly day of unpaid personal leave, and increased employee retirement contributions. However, the Governor proposes to maintain or increase funding for education, including K-12, state universities and Cal-Grants. The Governor has repeatedly said that he will not sign a budget without obtaining pension reforms and establishing a state budget "rainy day" reserve fund.

While city funding sources were not a prime target for additional takeaways, policy changes in the areas of public safety, transportation and environmental quality will have impacts.

Public Safety

The Governor included two new major proposals and continued others from January:

- Beginning in FY 2011-12, the Local Safety and Protection Account would be given a continual allocation of \$502.9 million dollars from the General Fund to fund Community Oriented Policing Services (COPS), booking fee reimbursement; rural sheriffs, juvenile probation, and crime prevention programs. The account was originally created in the FY 2009-10 budget through a 0.15 percent temporary increase in the Vehicle License Fee (VLF) which will expire at the end of FY 2010-11. This shift of COPS and booking fee reimbursements back to the General Fund would restore funding to the FY 2008-09 level and represents an increase of roughly \$60 million from the prior year.
- The May Revise dropped the previous "wobblers" (crimes that can be charged as either a misdemeanor or a felony) proposal that would have restricted various offenses to misdemeanors so that time would be served in local jails instead of state prison. Instead, the Governor proposes a major felony inmate management program that could divert roughly 15,000 (those who commit crimes with sentences of less than three years) from state prisons to county jails. In return, the state would provide local public safety block grants and appropriate \$11,500 per inmate to counties. This funding is intended to cover costs related to probation programming, drug courts, alternative custody, and housing. Details of this proposal are still developing in consultation with public safety stakeholders.
- Other concepts still on the table include using the Emergency Response Initiative to fund disaster response at the state and local level, the automated speed enforcement system proposal, and another which allows local law

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enforcement agencies to avoid paying a fee for Department of Justice forensic lab services.

Transportation

Following the adoption of the Gas Tax Swap in March, the May Revise did not include any surprising proposals related to transportation, nor do any of the proposals have a direct effect on cities. The May Revise also includes implementing language for a \$650 million loan from the new Highway User Tax Account (HUTA) to the General Fund to be repaid by June 2013. These funds were a one-time set aside in the Gas Tax Swap agreement for future appropriation by the legislature and will not impact local transportation funding. In future years, this funding will be included in the total allocated to cities, counties, and the state as HUTA.

For more background information, please see "Legislature Passes Gas Tax Swap," in the March 5 issue of *City Advocate Weekly*.

Environmental Quality

- **Water :** The Governor proposes to provide significant funding (\$1.1 billion) through the pre-allocation of the 2010 Water Bond slated for the November 2010 statewide ballot.
- **Parks :** Under the May Revise, state parks are fully funded. This is a reversal from the Governor's January budget, influenced by the recent incident in the Gulf of Mexico. The Governor's originally proposed funding parks through lease revenues from an offshore oil drilling project.
- **Basin Plan Funding :** Basin Plans, developed by the state's nine regional water quality control boards provide the water quality information upon which Waste Discharge Permits are based. The Governor proposes shifting \$6.1 million from the General Fund to fee based funding.

Senate Democrats' Alternatives

Senate Democrats reacted strongly in opposition to the Governor's proposed cuts to social service and other programs. Many of these cuts have been either rejected or significantly reduced in Senate budget subcommittees, dominated by the majority Democrats.

In lieu of massive cuts, Senate Democrats proposed extending various existing temporary tax increases. These would be extensions to state income tax and vehicle license fees, including the special 0.15 percent rate for local public safety programs, which were adopted in February, 2009. Additional proposals include increasing the VLF by an additional 0.35 percent to a total level of 1.5 percent, increasing the state alcohol tax to reflect inflation, and delaying the implementation of various corporate tax breaks to businesses which were adopted as part of prior budget agreements.

Senate Democrats have also continued to talk about "realignment" of state programs to the county level, where counties could administer these programs more effectively. It remains unclear which programs would be affected and how such a transfer would be funded.

Assembly Democrats Counter With Creative \$8.9 Billion Securitization Concept

Also rejecting the Governor's proposed cuts to social programs, Assembly Democrats unveiled their California Jobs Budget Package. This alternative proposes to avoid the need for drastic cuts to social services, education and other programs, and major tax increases, through a one-time \$8.9 billion securitization of state bottle bill redemption revenues.

The Speaker explained to city officials gathered in Sacramento on June 2 for the League's Legislative Action Day that his proposal offered the best solution because he believes that major cuts or tax increases would dampen the fledging economic recovery. He also highlighted his plan to assist local governments by repaying \$930 million in previously owed mandate claims. While cities will benefit, the majority of this money is owed to counties.

The financing proposal also includes a new \$1 billion annual oil extraction tax designed to assist with the securitization proposal. The tax increase would be offset by a quarter-cent reduction in the state's share of sales tax. This "tax swap" would only require a majority vote under a legislative legal theory. Assembly Democrats maintain that an additional benefit of this swap is that it would also permit the state to end the "triple flip" financing mechanism, and allow local sales tax to return to their previous rates, thereby shifting \$900 million in property tax funding back to schools.

An explanation of the existing triple flip mechanism is available [online](#).

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City officials were also encouraged by the Speaker's comments on redevelopment funding at the League's Legislative Action Day. In his remarks, the Speaker talked of his previous tenure as a board member of the Los Angeles Community Redevelopment Agency.

"You don't have to tell me about how great redevelopment agencies are. Prior to being elected to the Assembly I was proud to serve on the Los Angeles Community Redevelopment Agency. I think redevelopment is a huge, huge important tool. You should note that the Assembly voted against the 40 year, 10 percent raid on redevelopment. I have no interest in going after redevelopment this year as a way to balance our budget," said Pérez.

The Speaker's presentation of this proposal to city officials during the League's Legislative Action Day can be viewed on the [California Channel](#).

Legislative Analyst Suggested Options Include Enterprise Zone Elimination

Cities with enterprise zones will be interested to know that LAO has proposed to eliminate tax benefits granted to businesses in enterprise zones as a cost savings measure. While this proposal has not been adopted in any pending budget proposal, its existence - along with SB 974 (Steinberg), which would shift enterprise zone tax credits to other purposes, is of concern. SB 974 is opposed by the League and many business organizations.

LAO's analysis of the Governor's May Revise visit is on LAO's [Web site](#).

Cities Should Remain Vigilant as Senate and Assembly Conferees Begin Work

The Legislative Budget Conference Committee began the bulk of its work on Monday, June 7 and continued to meet the rest of the week attempting to put together a budget proposal to be sent to the Governor. The Committee held meetings through the remainder of the week.

The Senate Conferees are:

- Sen. Denise Ducheny (D-San Diego), Chair;
- Sen. Bob Dutton (R-Inland Empire);
- Sen. Bob Huff (R-Diamond Bar);
- Sen. Mark Leno (D-San Francisco); and
- Sen. Alan Lowenthal (D-Long Beach).

The Assembly Conferees are:

- Assembly Member Bob Blumenfield (D-Van Nuys), Vice Chair;
- Assembly Member Connie Conway (R-Visalia);
- Assembly Member Felipe Fuentes (D-Los Angeles);
- Assembly Member Jim Nielsen (R-Biggs); and
- Assembly Member Nancy Skinner (D-Berkeley).

Key documents that will be used by the Budget Committee can be found on the California State Senate [Web site](#).

The LAO has provided an excellent overview and comparison of the various budget plans on their [Web site](#).

The LAO also posted an update on the economy, revenues and spending on their [Web site](#).

League staff will continue to track these proceedings and notify city officials of major developments.

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