



Date: January 17, 2008

To: State Legislation Committee Members

From: *PHW* Patrick H. West, City Manager *PHW*

Subject: **State Budget Update – Political Analysis and Long Beach Impact**

For your information, attached you will find a memorandum from Michael J. Arnold and Associates regarding a political analysis of the State budget. Also attached is another copy of staff's analysis of the impact of Governor Schwarzenegger's proposed FY 09 Budget on Long Beach.

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

cc: Mayor and Members of the City Council
Suzanne Frick, Assistant City Manager
Reginald Harrison, Deputy City Manager
Lori Ann Farrell, Director of Financial Management
Tom Modica, Manager of Government Affairs
Jyl Marden, City Council Liaison
Mike Arnold and Associates

Attachments
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Michael J. Arnold and Associates, Inc.

Legislative Advocates and Consultants

Phone: (916) 446-2646 ◊ Fax: (916) 446-6095 ◊ 1127 11th Street, Suite 820, Sacramento, CA 95814

Memorandum

TO: Suzanne Frick
Tom Modica
Julia Brown

FROM: Michael J. Arnold, Legislative Advocate
Kristian E. Foy, Legal Counsel

DATE: January 16, 2008

SUBJECT: State Budget Update – Political Analysis

Proposition 58 / Fiscal Emergency / Special Session Add Complications

The 2008-09 State Budget issued by the Governor last Thursday is one of the more complicated and more difficult to comprehend budgets ever produced. One of the key elements of the difficulty is the fact that the 2008-09 Budget is also predicated on many assumptions which flow from the implementation of Prop. 58 – the balanced budget initiative passed by the voters in 2004. As a part of Prop. 58, if the Governor declares a fiscal emergency and calls a special session of the Legislature, the Legislature is required to consider the Governor's proposals for mid-year budget adjustments within 45 days. If one assumes the budget adjustments called for by the Governor are put in place before the end of the current fiscal year (2007-08), then a very different set of figures are arrived at with respect to 2008-09 budget. If however, the Legislature fails to implement some version of the Governor's proposals for mid-year budget cuts, the outlook for the 2008-09 budget becomes even worse.

Those of us who make our livings here in Sacramento by being able to provide clients with accurate predictions for the outcome of political deliberations are having considerable trouble handicapping this budget scenario. Part of the reason for our difficulty also lies in the fact that many political pundits here in Sacramento believe that the Governor has no intention of implementing a budget such as the one he has proposed. Sacramento Bee columnist Peter Schrag had this to say on this topic:

“There’s now the widespread belief in Sacramento that the sharp cuts in programs the governor is proposing – closing state parks and public beaches, releasing thousands of convicts from state prisons, whacking schools – are a little phony, a Washington monument strategy to get voters (and Republicans) to actually accept some sort of tax increase – maybe coupled to some sort of long-term fiscal restraint formula.”

Thus, the folks in Sacramento are somewhat at a lost with respect to how they should address the Governor’s budget proposal. Clearly, the Budget Subcommittees will have extensive hearings on all aspects of the Governor’s budget; but it will be difficult to reach an agreement on anything with so much uncertainty on where the Governor is willing to go and what options are available to the Legislature. Budget Subcommittees are to begin deliberations before the end of January.

Local Government Revenues Could Be at Risk

The scenario described above calls for the Legislature to come up with alternatives which avoid the draconian budget proposals put forth by the Administration. We have heard discussions behind the scenes about a three year budget strategy with a short term increase in some taxes, but the “t word” is a non-starter with Republicans. So, if we are not going to increase taxes, we must look at alternative shifts in revenues. Thus, the provisions of Prop. 1A, the initiative to protect local revenues adopted by the voters in 2004, become important. Under Prop. 1A the State is allowed to “borrow” local government revenues no more than twice during a ten year period. Also, the constitutional language put in place by Prop.1A requires that such borrowing be returned to local government within three years, with interest.

Redevelopment Revenue May Be at Risk

The constitutional language is even less specific when it comes to the protection of revenues generated by redevelopment agencies. Although redevelopment agencies were left out of Prop. 1A, the California Redevelopment Association believe the agencies are protected by constitutional language allowing for the creation of these entities. That language, however, is less than perfect. Thus, there are some who worry that the Legislature will attempt to steal redevelopment property taxes through a new version of an ERAF shift. If this occurs, the redevelopment agencies will likely file suit so that the constitutional provisions protecting redevelopment will be tested. Recall that in prior ERAF shifts, the law stated that if redevelopment agencies did not pay, then the host jurisdictions for those agencies would be required to pay the monies. Now that Prop. 1A is in place, that language is out the window and the State is faced with a straight up fight with redevelopment agencies if the aforementioned scenario is put in place.

Conclusion

So there you go! Against this backdrop, we are likely to have the Budget Subcommittees of the Legislature begin hearings next week on the proposals in the Governor's budget to release prisoners, cut education, close State Parks and reduce health benefits to those in most need of health services. We shall keep you closely apprised as this crazy legislative session unfolds.



POTENTIAL IMPACTS/BENEFITS FROM THE GOVERNOR'S FY 09 STATE BUDGET

JANUARY 10, 2008

The State is experiencing a \$6.7 billion operating deficit for the current budget (FY 07-08), and is projecting a \$14.5 billion deficit for FY 08-09. The Governor's proposed budget imposes strict spending cuts in the current and future budget years, and does not raise taxes. FY 08-09 Budget consists of \$100,998,000 in total expenditures and \$104,661,000 in total resources available. Key elements of the Governor's proposed budget include:

- 10 percent reductions across the board for all General Fund departments and programs, Boards, Commissions, and elected offices (including the legislative and judicial branches), except where a reduction is in conflict with the State Constitution or impractical.
- No new taxes are being proposed in the Governor's budget.
- Selling the \$3.3 billion of authorized Economic Recovery Bonds (ERBs) by the end of February 2008 and suspending the pre-payment of ERBs scheduled for 2008-09.
- \$4.5 billion in reductions to the Health and Human Services Agency.
- The Administration proposes to suspend the Proposition 98 Guarantee and provide \$4 billion, or 9.2 percent, less than the Guarantee would have required in 2008-09. In total, FY 09 reductions include \$4.4 billion in K-12 education reductions and \$1.1 billion in Higher Education reductions (including a \$483.5 million reduction in the Community College Proposition 98 local assistance program).
- \$378.9 million reduction in the California Department of Corrections and Rehabilitation. Under the proposed reductions, specified non-violent, non-sex offenders with no prior serious or violent offenses will be placed on summary parole.
- Reductions to the Department of Parks and Recreation that will result in the closing of 48 state parks out of 278 existing parks.
- The proposed budget will result in total savings of \$216.6 million in 2007-08 and \$9.1 billion in 2008-09.

Positive City of Long Beach Impacts

- The Governor **did not** suspend Proposition 1A (2004), which would enable the borrowing of local government property tax. The State has the ability to borrow up to \$9 million in Long Beach property tax.
- The Governor **did not** borrow from Proposition 42, which was recently protected by Proposition 1A (2006). Proposition 42 is fully funded, which could mean up to \$4.7 million for Long Beach local streets and road improvements in FY 09.
- The Governor **did not** postpone the \$8 million in Proposition 1B local streets and roads funding Long Beach is expecting this fiscal year.

POTENTIAL IMPACTS/BENEFITS FROM THE GOVERNOR'S FY 09 STATE BUDGET

JANUARY 10, 2008

- The Governor is recommending aggressive implementation of both Proposition 1B and 1C, which will provide grants for many important City programs. A list of bond areas the City may benefit from is included below:

<u>Proposition 1B</u>	<u>Proposition 1C</u>
<ul style="list-style-type: none"> ○ \$500 million for Trade Corridors ○ \$200 million for State/Local Partnerships ○ \$1,547 million for Corridor Mobility ○ \$1,186 for the State Transportation Improvement Program (STIP) ○ \$250 million for Air Quality ○ \$58 million for Port Security ○ \$216 million for State Highway Operations and Protection Program (SHOPP) ○ \$65 million for Grade Separation Program 	<ul style="list-style-type: none"> ○ \$188 million for Affordable Homeownership ○ \$194 million for Multifamily Rental Housing ○ \$24 million for Emergency Housing Assistance ○ \$200 million for Infill Incentives Grant Program ○ \$95 million for Transit Oriented Development ○ \$30 million for Housing Urban-Suburban and Rural Parks

Negative City of Long Beach Impacts

Description of Impact	Department	Estimated FY 09 Amount
10 percent reduction in Citizen's Option for Public Safety per-capita grants	Police Department	\$95,000
10 percent Booking Fee Reimbursement Program reduction	Police Department	\$6,000
Postponement of Gas Tax distribution to cities/counties for April to August until September 2008 *	Public Works	\$0
Public Library Foundation reduced by 10 percent	Library Services	\$29,000
AIDS Programs	Health and Human Services	\$198,378
Maternal and Child Health Programs	Health and Human Services	\$220,112
MEDI-CAL Revenue	Health and Human Services	\$113,550
Substance Abuse Program	Health and Human Services	\$23,563
Emergency Shelter Program for local governments (1,900 fewer available shelter beds statewide)**	Health and Human Services	\$0
TOTAL		\$685,603

*This does not result in a budget impact, but it would impact the City's cash flow for a total of \$3.8 million. Long Beach receives Gas Tax funds from the State on a monthly basis, which the City uses for operating expenses and transportation projects.

**The Department of Health and Human Services does not directly receive any State Housing and Community Development (HCD) Emergency Housing Assistance Program funds; however, several Long Beach shelters do receive these funds, such as the Winter Shelter.