



Agenda Item # \_\_\_\_\_

# Staff Report

## City of Manhattan Beach

**TO:** Honorable Mayor Ward and Members of the City Council

**THROUGH:** Geoff Dolan, City Manager

**FROM:** Sherilyn Lombos, Deputy City Manager

**DATE:** June 6, 2006

**SUBJECT:** Consideration of the State Budget and Legislative Update

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**RECOMMENDATION:**

Staff recommends that the City Council receive and file the June 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 with Rice, Englander and Associates is that they will provide regular updates on the state budget and legislative activity.

**DISCUSSION:**

The June 2006 Budget and Legislative Update from Tony Rice is attached which includes information about the state budget as well as bills of interest to the City.

Attachment: A. Budget and Legislative Update

To: Manhattan Beach City Council

Fm: Rice/Englander & Associates

**RE: LEGISLATIVE UPDATE**

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### **Deadlines**

As you all know, the Legislature acts in large part throughout the legislative year based on key deadlines that must be met for legislation and budget priorities to move through the process. A significant deadline was just passed, and that involved the requirement that all bills must pass their house of origin (Assembly bills must pass the Assembly and Senate bills must pass the Senate) no later than June 2, 2006, or else they are considered “dead”. As a result, numerous hurdles like passing policy committees and appropriations committee needed to be obtained before the houses could even consider passing measures. Needless to say, it has been a hectic month in Sacramento!

### **City Priorities**

The following updates you on the priorities important to the City as transmitted by City staff:

- **AB 2015 (Lieu)** – This bill would add one seat from the west side of Los Angeles County to the South Coast Air Quality Management District Board. This bill passed the Assembly with the bare minimum of votes necessary. This bill is now awaiting referral to a policy committee in the Senate. The City of Manhattan Beach has a support position on this bill.
- **AB 2987 (Nunez and Levine)** – This bill is authored by the Speaker of the Assembly and the Chair of the Assembly Utilities and Commerce Committee. This measure, as currently drafted, would fundamentally alter the way local governments deal with cable companies and other providers of cable and broadband service within their jurisdictions, to the municipalities’ detriment. The Speaker’s Office maintains that the bill is a work in progress and acknowledges the issues raised by local governments to date. However, this bill continues to be problematic. This measure passed the Assembly with strong bi-partisan support. This bill is now awaiting referral to a policy committee in the Senate. The City of Manhattan Beach has an oppose position on this bill.
- **SB 1778 (Alarcon)** – This bill would have altered the manner in which local governments currently count green waste as part of their recycling mandate. This bill did not pass the Senate Appropriations Committee and is now considered dead for the time being. The City of Manhattan Beach has a watch position on this measure.

- **Transportation Funding** – I continue to work to find \$5 million for a high-priority transportation project the City has identified. I have had extensive conversations with L.A. Metro board member Richard Katz on this topic, and he has assured me that this item will be part of the discussion as Metro begins a process for vetting new projects based on the assumption that significant new revenue will be available should voters pass a massive transportation bond in November. While Metro has not had a call for projects in some time based on the lack of new funding within the realm of transportation revenues the last several years, we should be well positioned on a going-forward basis. At this time, Metro staff is developing a process for the fuller project discussions that will happen later, but I am hopeful that we will be given the fullest consideration that this worthy project deserves.

## **Bonds**

As implied by the previous bullet, shortly after my last update to you the Legislature passed a significant and historic bond package that, if passed by the voters in November, would provide a much-needed influx of revenue to several program areas. The general breakdown of the bond package follows:

Education - The proposal authorizes the placement of a \$10.4 billion general obligation bond to fund K-12 and Higher Education on the November 2006 ballot.

Housing - The proposal authorizes that a \$2.85 billion general obligation bond providing homeownership, rental, and permanent housing opportunities be placed on the November 2006 ballot.

Levee Repair and Flood Control - The proposal authorizes the placement of a \$4.09 billion general obligation bond to repair and maintain levees and improve the flood control systems in the state on the November 2006 ballot.

Transportation - The proposal authorizes the placement of a \$19.9 billion general obligation bond to fund repairs, reduce congestion, improve bridge safety, expand public transit and improve port security on the November 2006 ballot.

Despite the intense efforts of a few lawmakers, ocean protection, access and mitigation funding was not a part of the final package as Republican members of the Legislature flatly rejected their inclusion.

## **2006-07 State Budget**

In May, the Governor released his proposed May Revision based on the most recent tax receipts collected by the state. This document amends the Governor's initial proposed spending plan released in January, and provides a fuller revenue and expenditure plan based on the most recent known taxable figures. The following is taken from the Governor's summary of his new proposed plan:

California's economy continued to perform strongly into 2006, with the state's unemployment rate falling to 4.8 percent in January and March - a rate not seen in over five years - and the number of jobs in the economy is now more than 560,000 higher than in November 2003.

This economic strength, coupled with a surge in revenues tied to corporate tax, capital gains, and stock options, has resulted in an increase in projected state revenues when compared to the Governor's January Budget of \$4.8 billion in the current year and \$2.7 billion in the budget year, for a two-year increase of \$7.5 billion.

Given the volatility of California's revenues, it is imperative to view these gains with caution. Precise data on the components of the new revenue growth will not be available for several months. Therefore, fiscal prudence dictates that most of the current-year gain be viewed as one time in nature, which is why the budget-year revenue projection is significantly less than the current-year gain would seem to suggest. In light of this, the May Revision proposes a total reserve of \$2.2 billion, by far the largest May Revision reserve since the enactment of Proposition 13.

Governor Schwarzenegger recognizes that the state must continue to exercise fiscal discipline in the face of a persistent structural budget problem. Thus, the May Revision proposes an unprecedented \$3.2 billion to prepay future debts. This is an increase of \$1.6 billion over the amount of pre-payment and repayments proposed in the Governor's Budget.

It is especially noteworthy that the May Revision proposes to pre-pay an additional \$1 billion in principal on Economic Recovery Bonds approved by voters in 2004. While the Governor's Budget proposed to make the constitutionally required repayment of \$460 million, the May Revision proposes to go beyond the minimum requirement. This incremental amount demonstrates the seriousness of the Governor's commitment to retire the "credit card debt" approved by the people as Proposition 57. With these pre-payments we now project that the Economic Recovery Bonds will be fully repaid in 2008-09, one year earlier than we forecast in January.

While the large reserve and the massive commitment to pre-pay debt are reflective of caution and fiscal restraint, the Governor also recognizes the importance of fully funding education, protecting citizens from crime, strengthening our levees to prevent floods and to ensure the continuity of the state's water supply, and preparing the state to respond to public health emergencies and natural disasters.

The May Revision proposes a settlement of litigation related to the 2004-05 suspension of the Proposition 98 guarantee. It includes full funding for the guarantee, resulting in a \$3.1 billion increase in 2006-07. It also recognizes \$2.9 billion in payments for 2004-05 and 2005-06 and proposes a repayment plan that will have no effect on the General Fund until 2009-10. In order to provide resources for the initial years of the settlement repayment schedule, the May Revision proposes legislation to authorize the re-funding of the Golden State Tobacco Securitization Corporation's 2003A bonds. This re-funding involves a new structure for utilizing the tobacco settlement payments in a way that will generate additional proceeds of \$900 million for the state without jeopardizing payments to the existing bondholders.

The May Revision also proposes one-time funding of \$400 million to help local hospitals and public health agencies prepare for public health emergencies and natural disasters by providing funding for equipment, medicine, and other assistance in developing surge capacity to handle medical needs during future emergencies, including a potential influenza pandemic. Additionally, the recently enacted bond package includes a one-time \$500 million General Fund appropriation so that the state can immediately begin making levee repairs to protect against floods. Finally, the May Revision proposes \$142 million to invest in public safety augmentations.

Both houses of the Legislature recently closed out their individual preferences for the spending priorities of the state based on the taxable figures provided by the May Revision. The Joint Legislative Budget Conference Committee has now begun deliberating on the spending differences between the two houses, and they are pushing hard at the moment to come to an acceptable agreement so the state may have an on-time budget. All indicators point to a budget being in place by the beginning of the next fiscal year (July 1), however this deadline has been seldom met in recent years.