Analysis, Commentary and Updates on Legislative and Policy Issues that Affect California Cities

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GOVERNOR ANNOUNCES HE WILL VETO $18.1 BILLION BUDGET PACKAGE

An hour after Democrats in the Senate and Assembly pushed through an $18.2 billion budget package yesterday, Gov. Schwarzenegger announced that he would veto the package because it included some, but not enough, of the economic stimulus measures he wants.
For more, see Page 2.

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2008 DECEMBER BUDGET BILLS: PRELIMINARY SUMMARY

These measures comprise the package of bills passed by the Legislature on December 18 in the First Extraordinary Session and sent to the governor for signature. Few of the bills were available in print at the time they were taken up for vote. They are now all available online. The following summarizes key provides of these bills. *For more, see Page 2.*

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MAJORITY-VOTE BUDGET PACKAGE WAS THE LATEST EFFORT TO CLOSE DEFICIT

The $18.1 billion budget package passed yesterday was a daring move by Democrats who were clearly determined to find a way to circumvent the Republicans' refusal to vote for revenue increases. In fact, two separate proposals had also been proposed this week by Republicans and Democrats; each had been rejected on a partisan basis. *For more, see Page 4.*

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He did not reference the Republicans' objections that the revenue measures in the package required a 2/3 vote, rather than the simple majority vote used to pass the measures by the Democrats.

The package of 12 majority vote-only bills aimed to cut state expenses and raise revenues to close the state's $40 billion, 18-month budget deficit. It achieves about $18.1 billion General Fund savings, split roughly into $9.3 billion in new revenues and $8.7 billion in cuts. Most of the bills were joined to AB 1x 2, the new property tax measure – meaning that if that measure was vetoed, the others would not take effect.

Several of the bills included "economic stimulus" provisions dealing with hospital construction, surplus property, CEQA, public-private partnerships and design-build rules relating to transportation, local transit and bond acceleration. These measures passed with bipartisan support – but evidently did not go as far as the governor wished. In particular, he appears to be pressing for greater concessions in the areas of environmental compliance relating to infrastructure projects, and relief from various labor protections.

What's next? Both houses adjourned the First Extraordinary Session when they adjourned last night, but the governor has said he will call a new extraordinary session so that they can continue to work on a budget solution. It appears now that both houses may remain in recess until January 5, when they will try again to pass a deficit reduction package in the new extraordinary session.

League Review Continues

While the governor has said that he will veto the budget package, it seems very possible that the package that passed yesterday could provide the basis for a new, revised proposal taken up for vote in January. For that reason, League staff will continue our review of these measures. For a preliminary review, please see "2008 December Budget Bills: Preliminary Summary", p. 1.

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AB 1x 2 (Evans) – State Tax Increases and Swaps. This measure is the heart of the proposed Democratic revenue package, which attempts to increase state revenues while avoiding the legislative 2/3rds vote requirement for new taxes. This measure would eliminate the state gas tax and reduce the state's portion of the sales tax on gas (total reduction $4.7 billion), while clarifying that local sales tax levied on the sale of gas is not affected. The measure then imposes a permanent ½ cent increase in state sales and use tax, a 2.5% increase in personal income tax, and a 9.9% oil severance tax (total increase $4.6 billion). Because the state tax increase is offset with an equivalent reduction, the Democrats maintain this is not a state tax increase. The loss of revenue from the elimination of the state gas tax and the state portion of the sales tax on gas would be offset by a new fee on gas imposed pursuant to SB 11 X1.

AB 1x 3 (Evans) – Budget Cuts. This measure would impose additional cuts and reductions to the state 2008-09 budget, including various cuts to state programs and employee compensation. Of specific importance to local governments, this measure includes a $156 million cut to transit; eliminates the $34.7 million reimbursement to local governments for implementing the Williamson Act; and reduces COPS and Juvenile Justice funding by $17.7 million for each program.

AB 1x 4 (Evans) – Education. Reduces state spending on education by $2.5 billion through various means.

SB 1x 5 (Ducheny) – Health and Human Services. Makes a variety of cuts to social service programs.

AB 1x 6 (Evans) – Transportation Fund Shifts. Redirects $100 million in tribal gaming revenues dedicated to the repayment of transportation loans to the General Fund. Transfers $85 million from the Motor Vehicle Account to the General Fund.

SB 1x 7(Ducheny) -- General Government (COPS and Booking Fee Program). This measure makes a variety of funding adjustments to state funded programs for cash flow and other purposes. Most significant to cities this measure would transfer the funding of various local public safety programs from the General Fund to vehicle license fees (VLF). In brief, $360 million dollars in current administrative costs charged by the Department of Motor Vehicles to the VLF, would be replaced by a new $12 dollar registration fee. The VLF previously dedicated to DMV administration, would now fund local public safety programs, including COPS and Booking Fees.

AB 1x 8 (Assembly Committee on Budget) – Corrections. This bill makes changes to the way that inmates in both state prison and county jails can receive credits towards sentence reduction; reduces parole for non-violent, non serious, non-sex offenders to no more than six months; and adjusts the minimum values for property crimes to reflect inflation. Notably, this bill provides two-for-one day credit for inmates on fire crew wait lists, whereas current law provides two-for-one day credits for inmates actively serving on fire crew assignments.

SB 1x 9 (Ducheny) – Undoing the Triple Flip. This measure would undo the "triple flip" mechanism that was put in place in 2004 to guarantee the repayment of $15 billion Economic Recovery Bond approved by the state's voters. The bill achieves this by defining the "revenue exchange period" as expiring on April 1, 2009. The triple-flip mechanism works as follows: the state lowered local (Bradley-Burns) sales tax by 1/4 cent, then increased the state sales tax by the same amount, and dedicated the increased amount to repay the bonds. Local governments are backfilled for their losses from school ERAF property tax dollars. Schools are backfilled by the state's general fund. Once the bond is repaid, this mechanism is designed to unravel (the local sales tax automatically returns to its previous level, and the property tax backfill goes away). SB 1X 9 undoes these "flips" of revenues, but leaves in place the ¼ cent increase in the state sales tax. Anti-tax advocates are expected to challenge the legality of this proposal as being a tax increase requiring a 2/3rds vote of the Legislature.

AB 1x 10 – AB 900 Cleanup language. This bill provides cleanup language to AB 900 (Solorio, 2007) so that construction may begin on facilities under the authority of the Department of Corrections and Rehabilitation (CDCR). AB 900 authorized CDCR to develop approximately 12,000 new facility beds in secure facilities. CDCR is also authorized to appropriate programming space and to acquire land, design, construct, and renovate reentry program facilities, and to construct and establish new buildings at facilities to provide medical, dental, and mental health treatment or housing for 6,000 inmates.

SB 1x 11 (Ducheny) – New Fee On Gas. This measure imposes a 39-cent fee on the sale of each gallon of gas, and a 31-cent fee on the sale of each gallon of diesel fuel, and distributes these fees in a manner similar to the existing distribution of state gas tax, and funds derived from the sales tax on gas (Prop 42). These new fees would be indexed every three years according to the California CPI.

AB 1x 12 (Evans) – Tax Withholding on Individual Contractors. This bill would require businesses and government entities to withhold three percent of payments for goods or services made to independent contractors, for payments over $600 per calendar year, beginning in 2010.

Economic Stimulus Measures

SB 1x 3 (Ducheny) – Hospital Construction. This bill would allow the Office of Statewide Health Planning and Development to exempt from the plan review process nonstructural construction or alteration projects with estimated construction costs less than $500,000; and projects with construction costs of at least $500,000, but less than $1 million if the designs are independently peer reviewed by independent plan reviewers.

SB 1x 4 (Ducheny) – Surplus Property. This bill seeks to resolve a long-standing dispute over whether or not the sale or transfer surplus property is subject to CEQA analysis. The bill provides a statutory exemption from CEQA for disposition of state surplus lands if the project consists exclusively of the sale or transfer of surplus state real property by a state agency. But it also requires that the agency conduct a CEQA analysis of the land prior to determining that it is excess property. It further clarifies that DGS request authorization from the Legislature to dispose of that land after the state agency determination has been made.

AB 1x 5 (Evans) – Transportation (CEQA Exemption, Public-Private Partnerships, Design-Build). This bill would, until January 1, 2011, exempt certain transportation projects from CEQA if certain conditions are met, for example, Caltrans conducting outreach efforts in the project vicinity, as well as Caltrans and contractors complying with standard construction practices. The bill also authorizes expanded use of development lease agreements with public and private partners for toll roads and other revenue-producing infrastructure projects. It further eliminates a requirement that projects created by negotiated lease agreements for these types of projects be approved by the Legislature, and instead requires that these reports be approved by a Public Infrastructure Advisory Commission, created by the bill.

SB 1x 6 (Ducheny) – Local Transit Projects. This bill provides local governments with the authority to generate additional and more stable revenue for transportation purposes in order to address the fiscal emergency outlined by the Governor's proclamation. Specifically, this bill authorizes a county to impose an additional ¼ cent local sales and use tax for transportation purposes. If all counties successfully elected to increase their sales and use tax rate by ¼ cent, it is estimated that this bill would generate approximately additional $1.5 billion additional local revenues for transportation projects.

AB 1x 7 (Evans) – Infrastructure Bond Acceleration. This bill would implement the omnibus infrastructure bond package that would act as an economic stimulus by appropriating approximately $2.9 billion in additional infrastructure bond funds, city and county street and road funds, and other funds from Props. 1B, 1C, and 84. The goal is to accelerate the construction of projects that are ready to begin construction in the 2009 calendar year.

SB 1x 8 (Ducheny) and AB 1x 8 (Assembly Committee on Budget) - Foreclosure Moratorium – No vote taken; not sent to the governor.

'Majority-Vote' Continued from Page 1…

On Monday Republicans had come forward with a proposal estimated to save $22 billion over the next 18 months. It consisted of $15.6 billion in cuts more than two-thirds of which affected education, and $6 billion in revenue measures. The latter included no new revenues; rather, the plan proposed to divert revenues from existing programs, including programs that voters had approved for mentally ill ($3.9 billion from Prop. 63) and health care for children ($2.1 billion from Prop. 10).

The Republican proposal was not well received by Gov. Schwarzenegger or the Democrats. Both the Assembly and Senate budget committees held hearings on the proposals, questioning the deep cuts to education and other priority areas, and the shift of funding away from programs established by voter-backed initiatives.

The Assembly on Tuesday then held a floor session to take up votes on an alternative Democratic package of bills, and then on the Republican package. As expected, both packages failed on a partisan basis, with Democrats refusing to vote for the deep program cuts and revenue shifts proposed by Republicans, and Republicans refusing to support the revenue increases proposed by Democrats.

Gov. Schwarzenegger Launches "Bank on California"

This week Gov. Arnold Schwarzenegger, working in partnership with former President Bill Clinton, announced the launch of "Bank on California" – the nation's first statewide initiative to help Californians without checking or savings accounts open starter accounts at banks and credit unions.

“Bank on California” aims to help 100,000 Californians without bank accounts open starter accounts over the next two years. It is a collaborative, voluntary initiative carried out with the help of financial institutions, city mayors, federal bank regulatory agencies and community groups. So far, more than 32 financial institutions, 75 community organizations and 450 coalition members have joined “Bank on California.” San Francisco, Los Angeles, San Jose, Oakland and Fresno are the first tier of California cities joining “Bank on California.”

“Through ‘Bank on California’ we will help working families save money by accessing basic financial services others may take for granted – putting them in the financial mainstream,” said the Governor. “This simple, innovative idea won’t cost taxpayers a dime, helps working families get ahead and grows our economy at the same time.”

For more information please visit: www.bankoncalifornia.ca.gov.

Honoring Excellence in Public Works – Call for James L. Martin Award Nominations

The Public Works Officers Department is now accepting nominations for the 2009 James L. Martin Award, an annual award to honor an outstanding member of the public works profession. This award is presented to a city public works official who has contributed significantly toward advancing the public works profession and provides an opportunity to display the nominee’s exemplary career service, leadership, expertise and innovation in the public works field. Nominations are due Friday, Feb. 6, 2009.

Eligibility information and nomination forms are available at: http://www.cacities.org/resource_files/27519.Call for James L Martin Award Nominations - 2009.doc .For more information, please contact Dorothy Johnson at 916-658-8214 or djohnson@cacities.org.

NLC and CH2M HILL Nominations Open for 2009 Awards for Municipal Excellence Program

The National League of Cities (NLC) and CH2M HILL are accepting nominations for their Awards for Municipal Excellence program in 2009. This prestigious award has recognized outstanding programs across the country that improves the quality of life in America’s communities.

Cities are welcome to submit nominations beginning in February 2009, and two winners will be selected in each of the four population categories. The deadline for submissions is May 1, 2009.

The eight winning programs will receive awards of $1,000 or $2,000 and will be publicly recognized for their achievements at a ceremony at NLC’s Congress of Cities Conference and Exposition in San Antonio, Texas on Nov. 10-14, 2009.

For more information please visit the NLC website at http://www.nlc.org/resources_for_cities/awards___recognition/7760.aspx to obtain a copy of the 2009 nomination packet.

Find a Bill, Legislators, Leg Committee, or Ask League Leg Staff

Visit (and bookmark!) the League’s Legislative Resources Web page (www.cacities.org/legresources). You’ll find a roster and contact information for the League’s legislative staff; the online Bill Search program, background materials on lobbying your legislators, and more.
