

# Agenda Report

TO:

CITY COUNCIL

DATE:

APRIL 27, 2009

THROUGH: LEGISLATIVE POLICY COMMITTEE (April 14, 2009)

FROM:

**CITY MANAGER** 

SUBJECT:

SUPPORT FOR THE MAY 19, 2009 CALIFORNIA STATEWIDE

SPECIAL ELECTION BALLOT PROPOSITIONS 1A, 1B, 1C, 1D,

1E AND 1F

## **RECOMMENDATION:**

It is recommended that the City Council support Propositions 1A, 1B, 1C, 1D, 1E and 1F on the May 19, 2009 Statewide Special Election Ballot and authorize the Mayor to send correspondence to the appropriate authorities stating Pasadena's position.

# **BACKGROUND:**

In recent years, the State of California has experienced major budgetary problems with its General Fund. The General Fund is the state's primary account for the payment of most services including education, health and social services, state prisons, etc. In 2007-2008 the state spent \$103 billion from the General Fund. In late 2008, the budget problems worsen due to the downturn in the economy. By January, 2009 it was projected the state would face a \$40 billion shortfall over the period 2008-2010. In response to this financial crisis, in February, 2009, the California Legislature and the Governor agreed on a financial package to balance the state budget. The package contained approximately \$15 billion in budget reductions, \$12.5 billion in tax increases, \$8 billion in federal funds from the economic stimulus bill and \$5 billion from the borrowing of future lottery funds. As part of the state package six propositions were also placed on the May 19, 2009 Statewide Special Election ballot related to the budget. These propositions, 1A through 1F, are summarized below.

**PROPOSITION 1A -** Stabilizes State Budget. Reforms California Budget Process. Limits State Spending. Increases "Rainy Day" Budget Stabilization Fund.

TR0881

MEETING OF 04/27/2009

AGENDA ITEM NO. 5.C.1.

This measure would make major changes to the way in which the state sets aside money in one of its "rainy day" reserve accounts and how this money is spent. As a result, Proposition 1A could have significant impacts on the state's budgeting practices in the future. The measure would increase the amount of money set aside in the state's rainy day account by increasing how much money is put into this account and restricting the withdrawal of these funds. If this measure is approved, several tax increases passed as part of the February 2009 budget package would be extended by one to two years. State tax revenues would increase by about \$16 billion from 2010-11 through 2012-13. The following entities are on record supporting or opposing 1A:

# Support

California Fire Chiefs Association California Police Chiefs Association California Taxpayers' Association California State Sheriffs' Association California Peace Officers' Association California Business for **Education Excellence Budget Reform Now** California Alliance for Jobs California Business Roundtable California Chamber of Commerce California Black Chamber of Commerce Central California Hispanic Chamber of Commerce California Senior Advocates League California Alliance for Jobs American Federation of State. County and Municipal Employees California Retailers Association **Small Business Action Committee** California State Council of Laborers

# <u>Oppose</u>

Health Access California
Howard Jarvis Taxpayers
Association United Nurses
Association of California/
Union of Health Care Professionals
Older Women's League of California
Congress of California Seniors
California Faculty Association
Consumer Federation of California

# **PROPOSITION 1B** - Education Funding. Payment Plan.

This measure amends the State Constitution as it relates to Proposition 98 by providing "supplemental education" payments in place of recent "maintenance factor" payments. It also provides greater discretion to the Legislature and Governor regarding how the payments would be distributed. The following entities are on record supporting or opposing 1B:

Support

California Fire Chiefs Association California Police Chiefs Association Oppose

Howard Jarvis Taxpayers Association: Older Women's League California Teachers Association
California Federation of Teachers
California State PTA
California Alliance for Jobs
American Federation of State,
County and Municipal Employees
California Chamber of Commerce
California Black Chamber of
Commerce
Central California Hispanic Chamber
of Commerce
California Retailers Association
Small Business Action Committee

of California
Congress of California Seniors
California Faculty Association
Consumer Federation of California
United Nurses Association of
California/
Union of Health Care Professionals

# PROPOSITION 1C - Lottery Modernization Act.

California State Council of Laborers

This measure is one of the major components of the plan approved by the Legislature and the Governor in February 2009 to balance the state budget. The measure makes major changes to the 1984 voter initiative that created the California Lottery. These changes increase lottery ticket sales and allow the state to borrow \$5 billion in fiscal year 2009-10 from future lottery profits. In addition to borrowing this \$5 billion, the state also could borrow more from lottery profits in future years. Under the measure, lottery profits now dedicated to schools and colleges would be used to pay back the borrowing. The measure would increase state payments to education from the state General Fund to make up for the loss of these lottery payments. The following entities are on record supporting or opposing 1C:

#### Support

California State Sheriffs' Association California Fire Chiefs Association California Police Chiefs Association California Peace Officers' Association American Federation of State, County and Municipal **Employees** California State PTA California Chamber of Commerce California Black Chamber of Commerce Central California Hispanic Chamber of Commerce California Business Roundtable California Alliance for Jobs. California Secretary of Education

#### Oppose

Howard Jarvis Taxpayers
Association United Nurses
Association of California/
Union of Health Care Professionals
Older Women's League of California
Congress of California Seniors
California Faculty Association
Consumer Federation of California

California Business for Education Excellence California Retailers Association California State Council of Laborers

**PROPOSITION 1D -** Protects Children's Services Funding. Helps Balance State Budget.

This measure would temporarily redirect a significant portion of Proposition 10 (First 5 program) funds to achieve budgetary savings and would make permanent changes to state and local First 5 commission operations. The following entities are on record supporting or opposing 1D:

#### Support

Association of Regional Center Agencies American Federation of State, County and Municipal **Employees** California Alliance for Jobs California Fire Chiefs Association California Police Chiefs Association California Peace Officers' Association California State Sheriffs' Association California Chamber of Commerce California Black Chamber of Commerce Central California Hispanic Chamber of Commerce Association of Regional Center Agencies California Retailers Association **Small Business Action Committee** California State Council of Laborers

# <u>Oppose</u>

Health Access California
Howard Jarvis Taxpayers
Association United Nurses
Association of California/
Union of Health Care Professionals
Older Women's League of California
Congress of California Seniors
California Faculty Association
Consumer Federation of California

**PROPOSITION 1E** - Ensures Funding for Children's Mental Health Services. Helps Balance State Budget.

Proposition 63 provides state funding for certain new or expanded mental health programs through a personal income tax surcharge of 1 percent on the portion of a taxpayer's taxable income in excess of \$1 million. This measure allows for the temporary redirection of some Proposition 63 funds, \$226.7 million in 2009-10, and between \$226.7 million and \$234 million in 2010-11. In effect, these Proposition 63 revenues would be used to offset state costs that would otherwise be borne by the General Fund, thereby achieving savings to help address the

state's current budgetary problem. The following entities are on record supporting or opposing 1E:

## Support

California Fire Chiefs Association
California Police Chiefs Association
California Peace Officers'
Association California Taxpayers'
Association California State Sheriffs'
Association
California Latino Child Development
Association

National Tax Limitation Committee American Federation of State, County and Municipal Employees California Chamber of Commerce California Black Chamber of Commerce Central California Hispanic Chamber

of Commerce
California Retailers Association
Small Business Action Committee
California State Council of Laborers

# <u>Oppose</u>

Howard Jarvis Taxpayers
Association California Family
Resource Association
United Nurses Association of
California/
Union of Health Care Professionals

for Children and Youth
Older Women's League of California
Congress of California Seniors
California Faculty Association
Consumer Federation of California

California Mental Health Advocates

**PROPOSITION 1F -** Elected Officials' Salaries. Prevents Pay Increases During Budget Deficit Years.

This proposition amends the Constitution to prevent the California Citizens Compensation Commission from approving increases in the annual salary of elected state officials in certain cases when the state General Fund is expected to end the year with a deficit. The following entities are on record supporting or opposing 1F:

## Support

California Taxpayers' Association
California State Sheriffs' Association
California Fire Chiefs Association
California Police Chiefs Association
California Peace Officers'
Association California State Council
of Laborers American Federation of
State, County and Municipal
Employees
California Chamber of Commerce
California Black Chamber of
Commerce Central California

## <u>Oppose</u>

Health Access California
Howard Jarvis Taxpayers
Association
United Nurses Association of
California/
Union of Health Care Professionals
Older Women's League of California
Congress of California Seniors
California Faculty Association
Consumer Federation of California

Hispanic Chamber of Commerce California Retailers Association Small Business Action Committee

On April 6, 2009, the Board of Directors for the League of California Cities took formal action to support all of the propositions. The Board's decision reflects the importance of protecting city revenues, furthering infrastructure investment, and rebuilding our state and local economies.

The six ballot measures combine will provide nearly \$6 billion into the state's 2009-10 spending plan. Even with that revenue, the plunging economy has already created a potential \$8-billion shortfall in next year's budget. If the propositions fail, the state could face a \$14-billion deficit that would grow by an additional \$16 billion if Proposition 1A doesn't pass, according to the nonpartisan legislative analyst's office.

There is also a strong possibility that a budgetary impasse will occur if the ballot measures fail. Last summer and again during the winter, negotiations dragged on for weeks as State representatives quarreled over how to fill the deficit. If more tax increases are necessary after May 19, another stalemate could develop. Tax hikes require a two-thirds vote of the Legislature, and some representatives have indicated they have given enough. Consequently, failure of the ballot measures could result in funds being taken from cities.

## **FISCAL IMPACT:**

Collectively, propositions 1A-1F provide access to approximately \$16 billion in 2009-10 and billions of dollars in annual savings during the period from 2010 - 2014. If the voters reject these measures the Legislature and Governor will need to agree on additional spending cuts, tax increases and/or other financial solutions to balance the state budget.

Respectfully Submitted,

MICHAEL J. BECK City Manager

Approved by:

JULIE A. GUTIERREZ Assistant City Manager