



# CITY OF LODI

## COUNCIL COMMUNICATION

**AGENDA TITLE:** State Budget Update

**MEETING DATE:** March 5, 2003

**PREPARED BY:** Deputy City Manager

**RECOMMENDED ACTION:** No action necessary.

**BACKGROUND INFORMATION:** Mayor Hitchcock has requested that the City Manager provide an update regarding the State budget during each Council meeting.

On February 26, 2003, the City Manager, along with Mayor Hitchcock, Mayor Pro Tem Emily Howard and City staff members attended a presentation by Legislative Analyst Elizabeth Hill. Ms. Hill discussed the State budget issue and provided the attached hand out. In addition, attached for Council's information is the *Lodi News Sentinel* article regarding Ms. Hill's visit to Lodi and an article dated February 26, 2003 from the *Sacramento Bee* regarding the Governor's proposed budget plan.

Funding: None

Thank you,

Janet S. Keeter  
Deputy City Manager

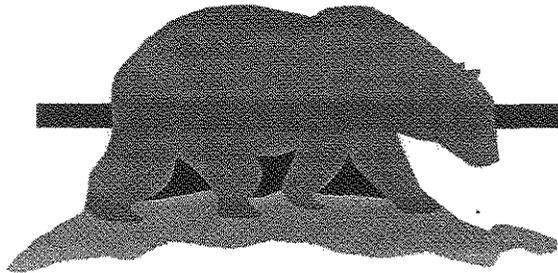
JSK/sl

Attachments

APPROVED: \_\_\_\_\_

  
H. Dixon Flynn -- City Manager

# Budget Overview



**Legislative Analyst's Office**

[www.lao.ca.gov](http://www.lao.ca.gov)



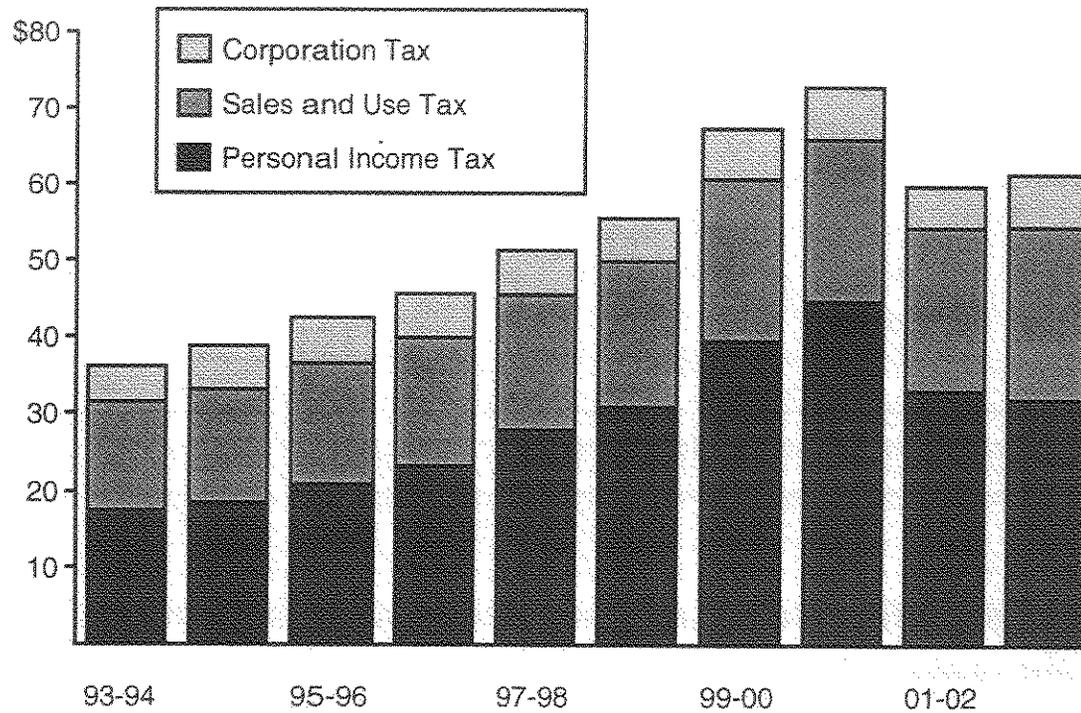
# **Budget Overview: Key Findings**

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- ▶ **If Fully Adopted, Budget Is Balanced**
- ▶ **Balance Only Achieved If Dramatic Actions Taken**
- ▶ **Many Threats Exist**

# California's Dramatic Revenue Fall-Off

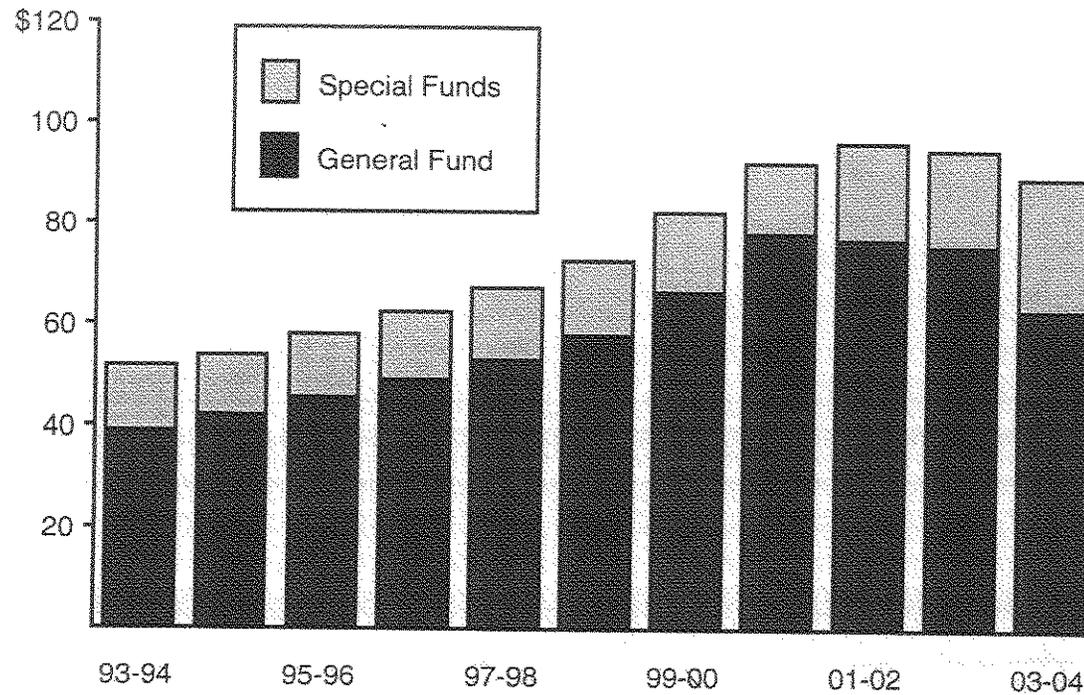
General Fund Revenues From Major Taxes  
(In Billions)



# Total State Spending Over Time

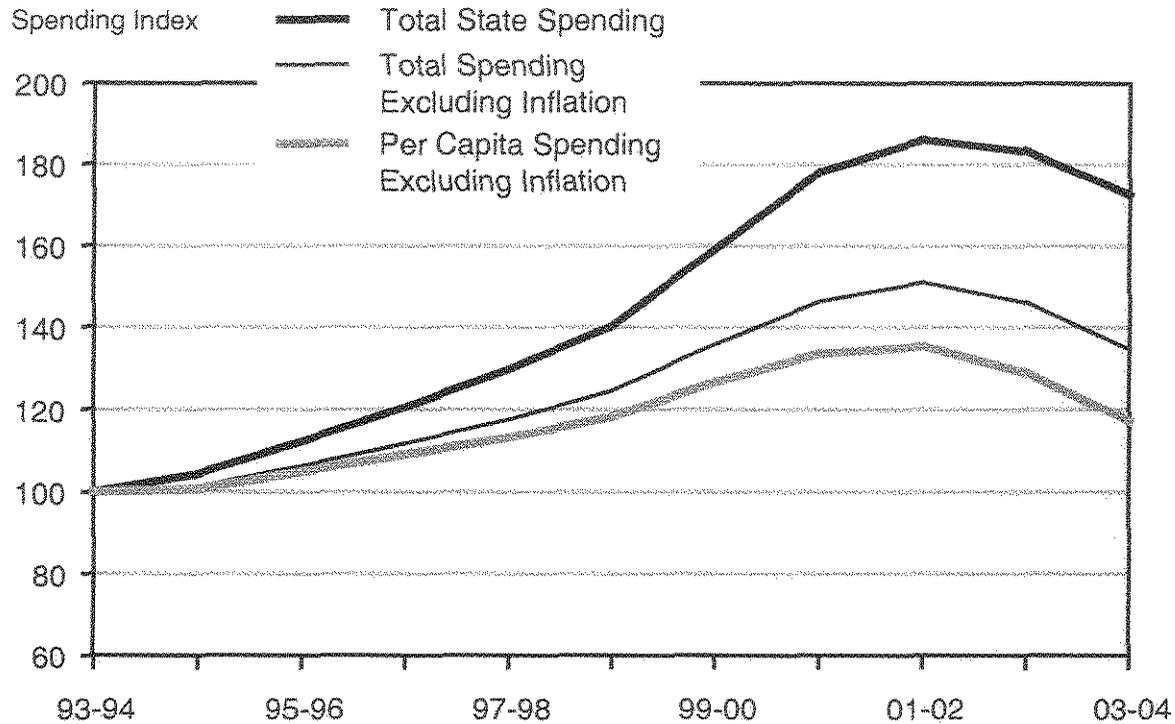
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1993-94 Through 2003-04  
(In Billions)



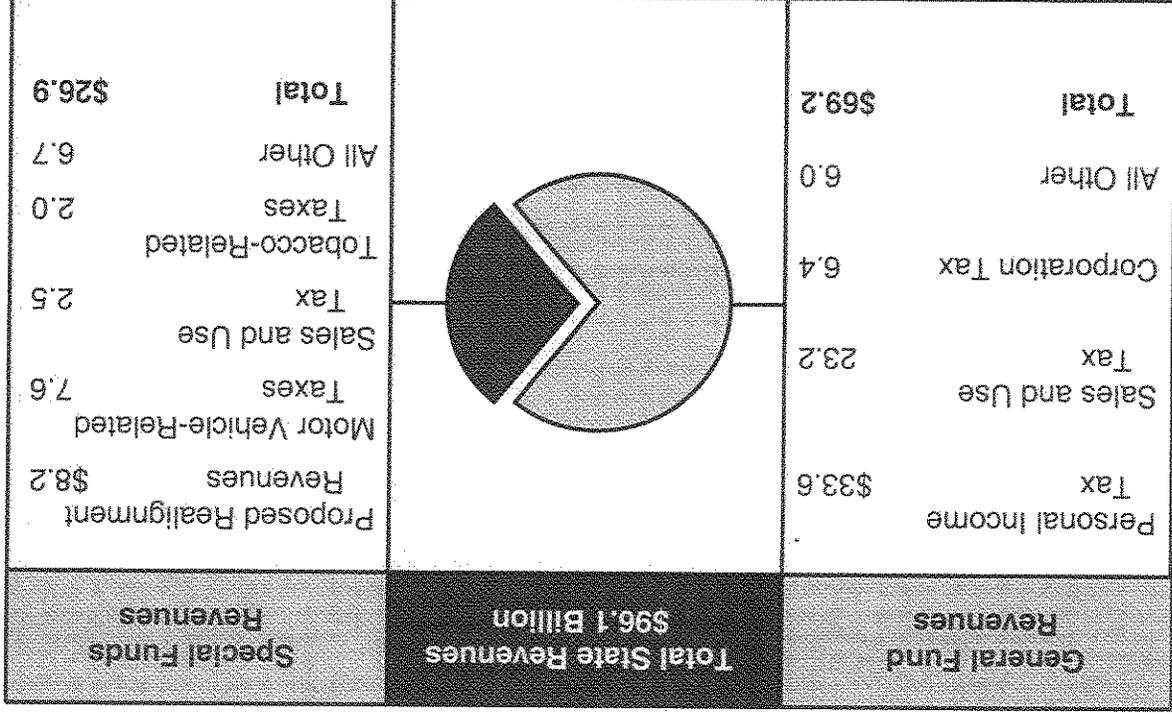
# Spending Adjusted for Inflation And Population

Index Value = 100 in 1993-94



# State Revenues in 2003-04

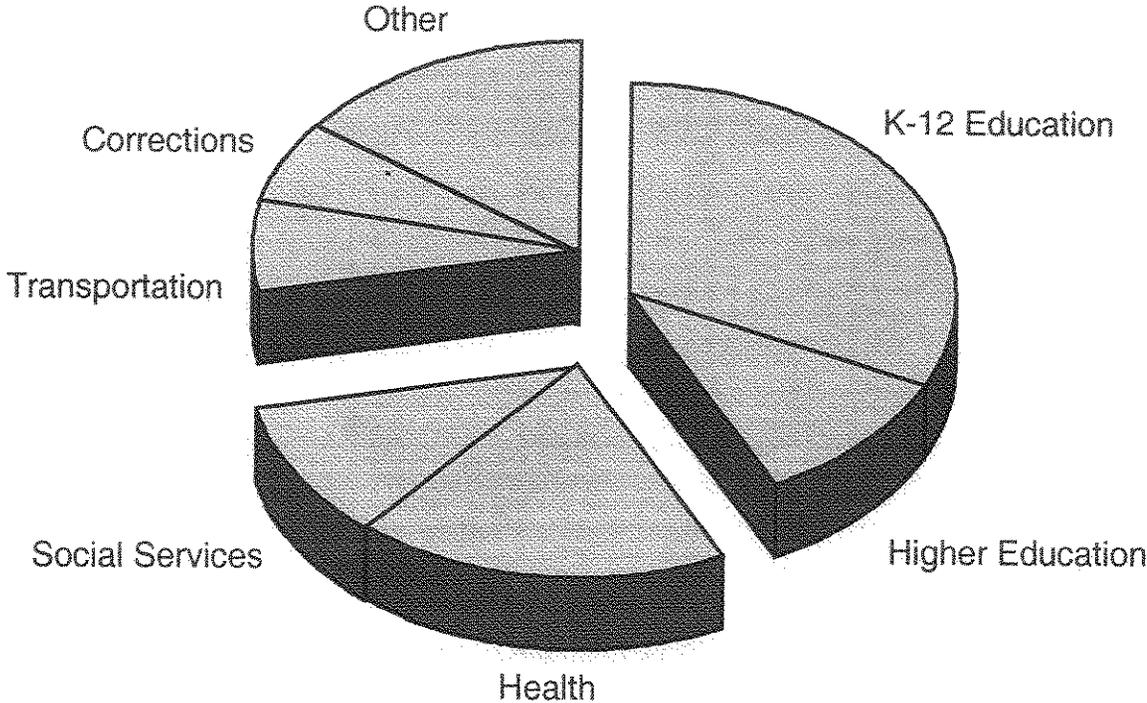
(In Billions)



# Proposed Total State Spending By Major Program Area

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2003-04



# **Overarching Considerations Relating to Realignment**

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- ▶ **Programs, Not Taxes, Should Be Focus**
- ▶ **Counties Need Program Control**
- ▶ **Roughly Match Revenues and Expenditures**
- ▶ **Details Matter**

# Realignment Worth Considering

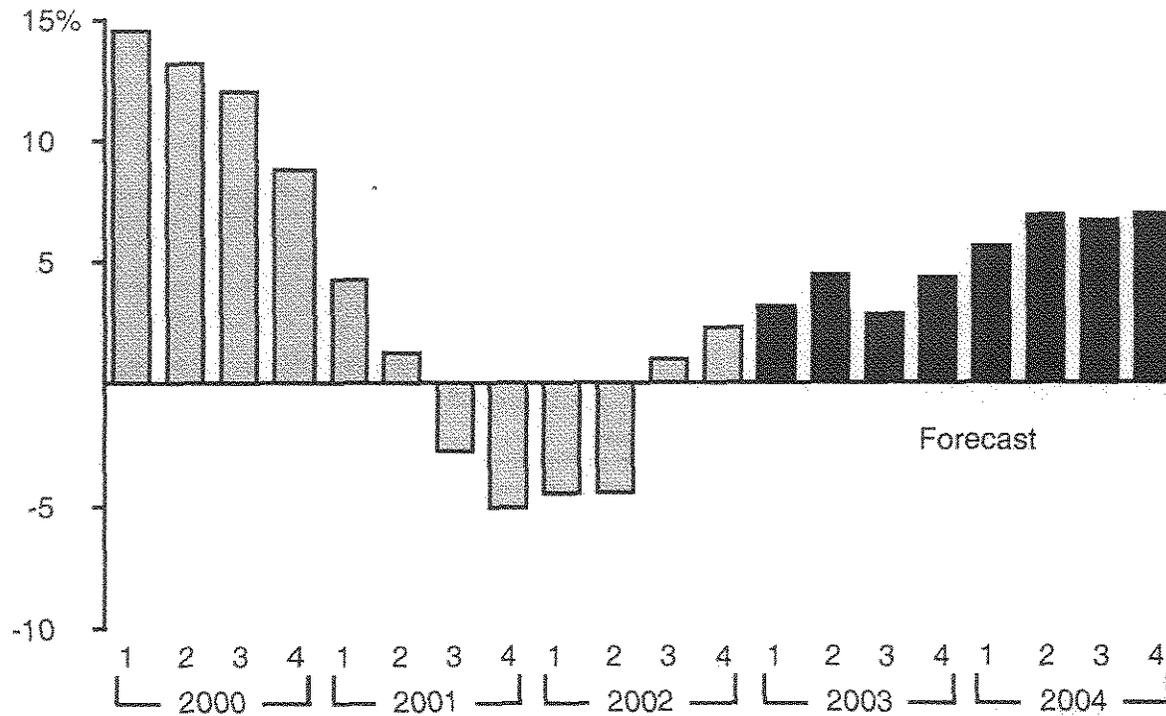
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- ▶ **\$8.2 Billion Shift in Program Responsibilities**
- ▶ **Revenue Portfolio Growth: 5.5% to 6%**
- ▶ **Realigned Program Growth: 7% to 8%**



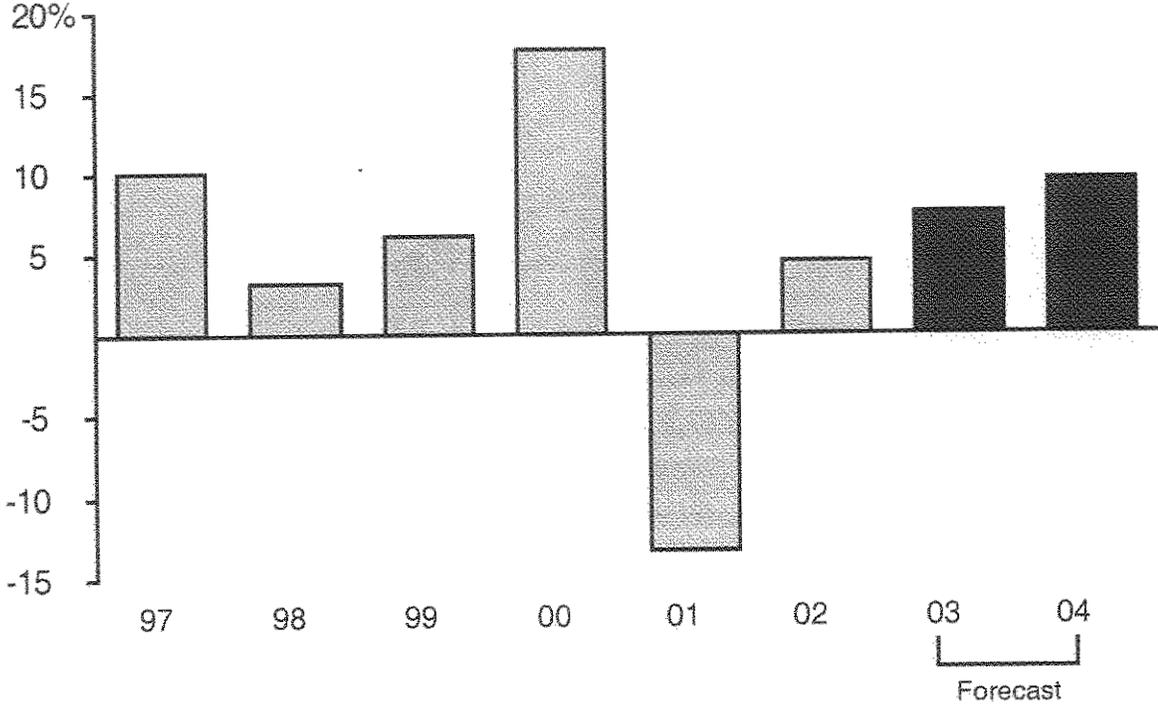
# Taxable Sales Slowly Improving

Year-to-Year Percent Change, by Quarter



# Profits on Upswing

Percent Change in California Taxable Corporate Profits





# Lodi News-Sentinel lodinews.com

Thursday, February 27, 2003



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## NEWS

### State credit rating won't improve, analyst says

By Jennifer Pearson Bonnett/News-Sentinel Staff Writer

The state's top legislative analyst came to Lodi on Wednesday with some disheartening news: Because of this year's budget shortfalls, the state's battered credit rating will likely not improve anytime soon.

Elizabeth Hill, who has headed the legislative analyst's office since 1986, took time out of her busy schedule to sit down and informally discuss California's budget shortfall and its effect on Lodi and other San Joaquin Valley communities.

What she got was more of a grumbling session from various groups already feeling the penny pinching.



Elizabeth Hill

Hill told elected city, school and county officials at the briefing that Gov. Gray Davis' proposed budget would work only if it was passed by the state Legislature as is -- and that includes raising taxes.

"Does the governor's plan pencil out? Only if dramatic action is taken," she said.

Last week, Hill's office released its annual analysis of the governor's budget claiming the deficit was overstated by Davis by about \$10 billion. The governor estimated this year's budget shortfalls at roughly \$35 million.

"There's no silver bullet in this budget and no easy solution," Hill said.

### Headlines:

**Of state's 624 potential terror targets, only 1 in San Joaquin County**

**Terrorism alert prompts watch over Delta waterways**

**State credit rating won't improve, analyst says**

**Jurors examine more videotaped interviews of Dutra**

**Woodbridge to take over Delta fire**

**Car hits house after crash**

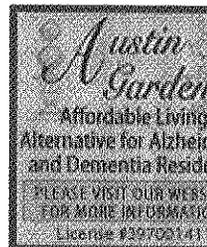
**Arrest of Patterson firefighter focuses attention on background checks**

**Galt elementary trustees consider budget cuts**

**Galt High trustees complete advertisement for new superintendent**

**Coast Guard establishes new safety zones for professional and recreational sailors**

**Utility company**



The Legislative Analyst's Office has been providing fiscal and policy advice to the Legislature for more than 55 years.

Hill's visit to Lodi was organized by Sen. Chuck Poochigian, R-Fresno, who also attended the Lodi briefing, which was recorded and will be broadcast by AT&T Broadband on Friday. Representatives came from as far as Ceres and Sonora.

"The magnitude of the problem is so great," Poochigian said Wednesday. "It's not easy to find a solution. There's going to be a lot of hard swallowing that needs to be done."

Other budget issues brought to the table Wednesday included the proposed vehicle license fee increase, teacher layoffs and rising college costs.

Hill, for example, said community college fees could increase even more than already proposed.

Dick Rogers, from the Tuolumne County Sheriff's Department, came concerned with the state's credit rating. "What's being done to get it up?" he asked Hill.

While she didn't have an answer, Hill, a Modesto native, said the state will likely need to get a loan by June to deal with its cash flow issues.

Assemblyman Alan Nakanishi, R-Lodi, a former Lodi mayor and councilman who took a familiar seat in front of Carnegie Forum on Wednesday, said he was informed that the state will borrow an estimated \$2.5 to \$2.8 billion, at an interest rate of \$25 million per \$1 billion.

"We must act quickly ... and we're not," he said. "I went into the Legislature thinking I was going to solve the budget problems. It's month three, and we're still at square one."

Mayor Susan Hitchcock was curious when a balanced budget could be expected from the state.

Poochigian said no one could provide an answer.

"All of us should be hopeful ... that we get there without too much trouble, but I would not bet on that," he said. "What I'm trying to say is, I don't know."

John Gray from Lincoln Unified School District echoed Hitchcock's feelings.

"When schools have to balance their budget, it has to be on time and we basically have to go on the best guess and revise," he said, adding that he hopes the state will stabilize school funding and defer legislation passed last year that would affect district budgets.

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[Stockton women's prison slated to change into reception center](#)

## Photos

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"We have to have the handcuffs off to do our jobs," Gray said.

In Lodi, even in the midst of trying to approve its own city budget by May, officials are still bracing for potential cuts thanks to the state's budget woes.

Of the city's \$31.6 million annual budget, roughly 15 percent, or \$4.7 million, comes from the state through vehicle license fees and grants.

Sales tax, property taxes and franchise taxes could also be affected and passed down to the city.

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Lodi News-Sentinel, Lodi, California.

## **Davis plan hits a snag**

**Tax-hike revenue would have to go to schools, legislative counsel says.**

**By Alexa H. Bluth -- Bee Capitol Bureau**

***Published 2:15 a.m. PST Wednesday, February 26, 2003***

The Legislature's lawyers have issued a legal opinion that could unravel the centerpiece of Gov. Gray Davis' plan to bridge the state's massive budget gap.

The Legislative Counsel's Office, in a privately circulated opinion obtained by The Bee, concluded that California would be legally required to divert billions of dollars in revenues from Davis' proposed tax increases to schools rather than local governments.

The opinion could derail the "realignment" plan in the governor's 2003-04 budget because it will siphon off to schools as much as half of the \$8.3 billion raised from increasing taxes on shoppers, smokers and top earners. Davis designed the realignment plan to shift several state programs to local governments and finance them with new taxes that bypassed the state treasury and theoretically avoided Proposition 98's provisions.

"The legislative counsel's opinion is only confirming what was suspected to be a questionable end run around Proposition 98," said Kevin Gordon, executive director of the California Association of School Business Officials.

To make Davis' plan work in accordance with the opinion, lawmakers would have to suspend Proposition 98, the 1988 initiative that guaranteed to kindergartens through community colleges a certain amount from the state each year according to a complex formula, including tying school spending to the growth in state revenues.

Davis said that \$8.3 billion in tax increases included in his realignment plan would not apply to the measure because it would be earmarked specifically for cities and counties. The Democratic governor hoped the plan would temper Republican criticism of tax increases because they would benefit local governments.

Davis modeled his realignment plan after a similar approach taken by former Republican Gov. Pete Wilson. The Wilson plan also circumvented Proposition 98 and was never challenged in court, said Dan Carson, director of the health and welfare section of the nonpartisan Legislative Analyst's Office.

But the new opinion said revenues generated by a "statutory increase in the cigarette tax would be proceeds of taxes that are within the general fund and, as such, would be included within the state's minimum school funding obligation." The opinion includes similar findings for the sales tax and income tax increase proposals.

Davis spokeswoman Hilary McLean said the counsel's office and the governor's legal advisers have "differing legal views" on the matter. "Our current view is that it wouldn't be subject to Proposition 98," she said.

But she said Davis requested in his budget that working groups assemble to study the intricacies of realignment.

Assembly Speaker Herb Wesson, D-Culver City, requested the opinion to clarify whether the proposed realignment and accompanying tax hikes would affect the state's school spending obligations, spokeswoman Patricia Soto said. The legal office issued its opinion Feb. 12, but Wesson has not made it public. Wesson could not be reached for comment Tuesday evening.

Suspending Proposition 98 is thought to be a politically incendiary move that also could face legal challenges. If lawmakers vote to suspend the law, the state would likely be required to repay schools billions of dollars in the future.

Davis has warned that lawmakers will either have to make \$8 billion more in cuts than he proposed or raise taxes for state operations if his realignment plan fails.

Legislative Analyst Elizabeth Hill last week largely endorsed shifting certain state responsibilities to counties and cities, but she raised the possibility that the new taxes to fund the shift could be applied to the Proposition 98 guarantee.

Specifically, Hill estimated that half of the revenues generated from tax increases would be legally required to be directed to schools rather than to local governments unless the schools proposition is temporarily shelved.

"I never have thought that this realignment had any substantive purpose other than to increase taxes without suspending Prop. 98," said John Campbell, R-Irvine, vice chairman of the Assembly Budget Committee. "If this opinion holds, then the Democrats will have to make a decision: Are they prepared to increase taxes and suspend Prop. 98?"

The legislative legal opinion is just the latest snag since Davis unveiled his budget plan Jan. 10.

The budget has drawn criticism of its reliance on tax hikes and proposal to eliminate \$4 billion in funding for local governments. Davis also faces threats of a legal challenge if he agrees to Assembly Democrats' request that the state's vehicle license fee be restored to pre-1998 levels.

"There's no question that it complicates an already very complicated budget dynamic in the Capitol," Gordon said. "The bottom line is that we are going to have to find ways to satisfy the Constitution and solve the budget mess as well."

filed 3-5-03

J. Keeter

Item I-1

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**Cities Are Net Donors to the State**  
**State General Revenue to Cities in millions**

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Red {

	FY 99-00	FY 00-01	FY 01-02	FY 02-03	TOTAL
Proposition 172 (voter approved)*	122	132	128	135	518
COPs (SLESF)	61	81	78	78	298
Discretionary Local Assistance	70	101	-	-	171
Traffic Congestion Relief		194	75	78	347
Police Technology Grants (CLEEP)		57	27	14	98
Booking Fee Relief	36	38	38	38	150
Public Libraries	25	25	23	18	92
<b>TOTAL Local Assistance</b>	<b>314</b>	<b>628</b>	<b>369</b>	<b>362</b>	<b>1,673</b>
ERAF Property Tax Shift	-606	-654	-708	-779	-2746
ERAF on Redevelopment Agencies				-71	-71
<b>Net City "Assistance" to State</b>	<b>-\$292</b>	<b>-\$26</b>	<b>-\$338</b>	<b>-\$489</b>	<b>-\$1,144</b>

②

**California City Financial "Assistance" to the State**  
**Under Governor's Proposed FY03-04 Budget & FY02-03 Midyear Cuts**

	FY02-03	FY03-04	Total
Prop. 172	135	142	277
COPS	78	78	156
Booking Fee Relief	38	0	38
Police Tech Grants (CLEEP)	14	14	28
Discretionary Local Assistance	0	0	0
Traffic Congestion Relief	39	0	39
ERAF property tax shift	-779	-827	-1,607
Redevelopment ERAF shift	-71	-236	-306
Redevelopment Low/Mod Housing cut	-471		-471
VLF Backfill cut	-550	-1,200	-1,750
<b>Net City "Assistance" to State</b>	<b>-\$1,567</b>	<b>-\$2,029</b>	<b>-\$3,596</b>

**NOTES**

Cities not including the City/County of San Francisco.

Proposition 172 Public Safety Augmentation funds are not state general fund.

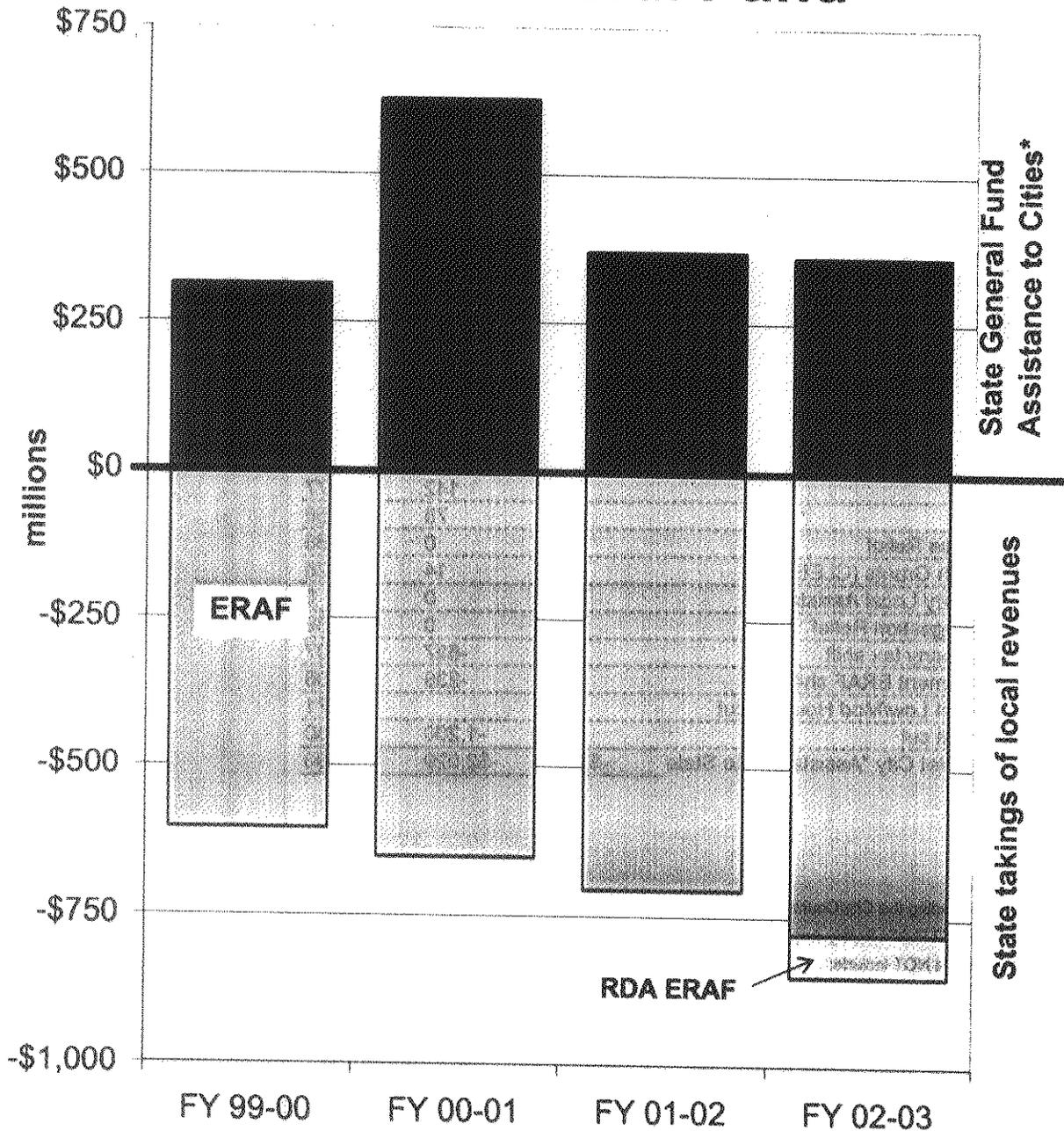
This chart does NOT include:

(a) Taxpayer relief programs listed in the state budget under "local assistance including: the VLF backfill, Senior Citizen Property Tax Relief, Homeowners' Property Tax Relief, and Williamson Act reimbursements. These programs provide taxpayer relief from the State via reductions in local taxes. They do not provide fiscal assistance to local government.

(b) State mandate reimbursements. These legal obligations of the state reimburse local government for the costs of program mandates imposed by the State. They do not provide fiscal assistance to cities.

(c) Special local one-time project allocations

# Cities are Net Donors to State General Fund

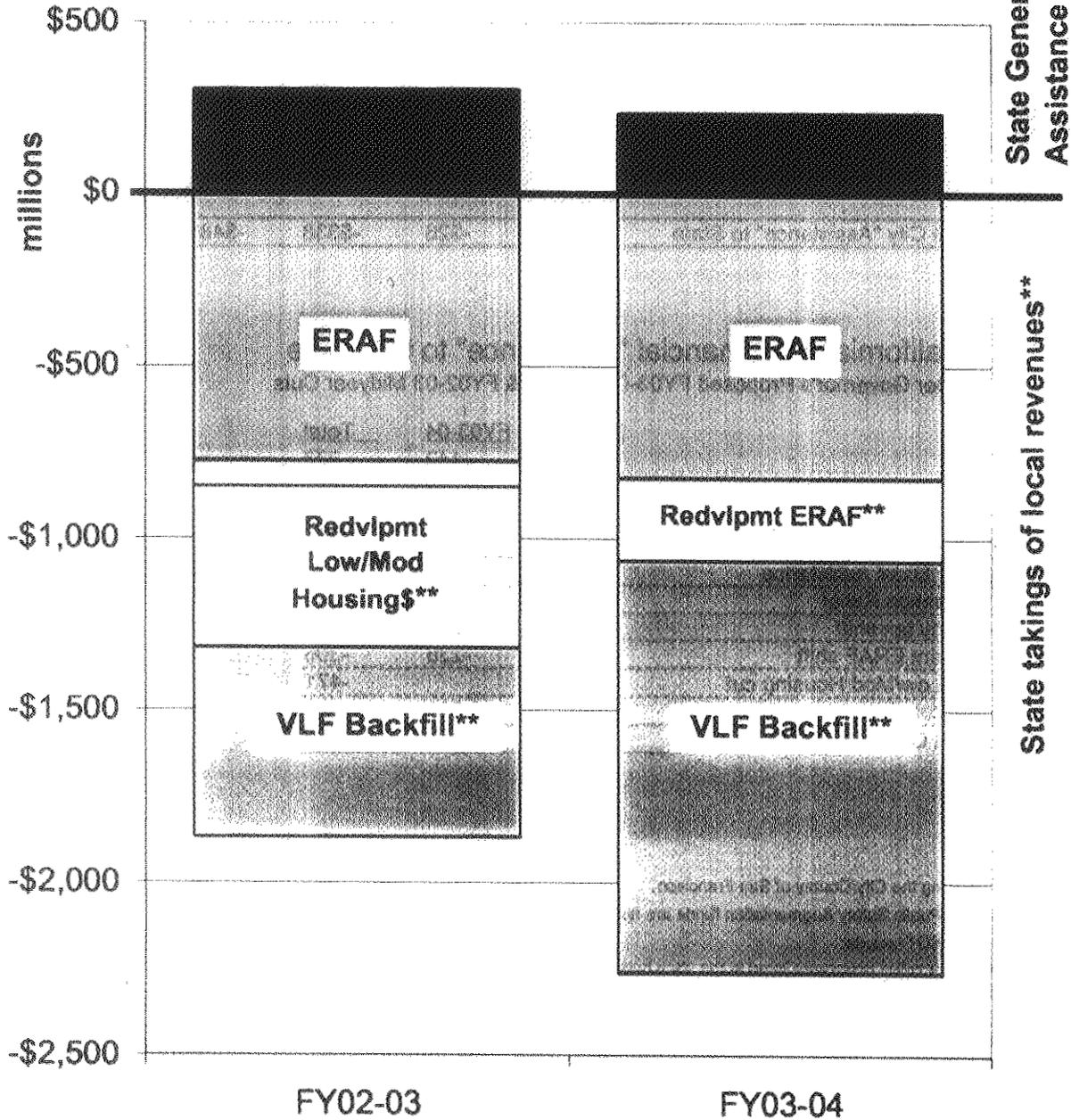


\*State general fund assistance plus voter approved Prop 172.

Does not include tax relief programs e.g the VLF backfill, HOPTR, etc.

\*\*FY02-03 based on current law

# Governor's Proposal Cuts into City Revenues



\*State general fund assistance plus voter approved Prop 172.

\*\*Reflects Governor's proposed cuts