

**Council Meeting: April 21, 2009****SUBJECT: Positions on State Ballot Measures for the May 2009 Election****REPORT IN BRIEF**

This report provides an opportunity for the Sunnyvale City Council to take positions on state and local measures on the May 19, 2009 Ballot. This report summarizes the measures which are considered City business, provides the City's adopted policy on the issues (if any), and a staff recommendation. Consistent with other ballot measures, no public funds have been or will be used to campaign for or against these measures.

The May 2009 ballot includes six measures for consideration, which are part of a larger budget reform package that combined, will stabilize our current state budget and prevent the City from seeing a repeat of the State's 2009 budget crisis. This package, as proposed would likely translate to more stable state funding for the City of Sunnyvale. City staff recommends a **SUPPORT** position for each of the May 19, 2009 ballot measures.

BACKGROUND

Staff is providing this report to afford the Sunnyvale City Council an opportunity to take a public stand on state and local measures on the May 19, 2009 ballot. Staff's recommendations are generally based on existing City policies from documents such as the General Plan and 2009 Legislative Advocacy Positions, and impact on City operations. Past positions of the Council also guide staff recommendations. New positions taken by the Council become official City policy.

EXISTING POLICY

Legislative Advocacy Position 7.1 B (3) Support efforts to provide local government with protected and predictable revenue sources; support positive reform of the state-local fiscal relationship.

Council Policy 7.3 C.1: Represent City policy in intergovernmental activities in accordance with adopted policy guidelines.

DISCUSSION

The six measures on the May 2009 ballot are part of a larger budget reform package that combined, will stabilize our current state budget. For this reason, staff is recommending a support position on all of these measures based on existing City Policy.

A brief analysis of each measure on the May ballot follows, including a measure summary, staff analysis by the appropriate department regarding impact on City operations, fiscal impact, and staff recommendation.

Proposition 1A Stabilizes the state budget; reforms California budget process; limits state spending; increases "rainy day" Budget Stabilization Fund.

Measure Summary:

- Increases size of the state's "rainy day" fund from 5% to 12.5% of the General Fund.
- A portion of the annual deposits into that fund would be dedicated to savings for future economic downturns, and the remainder would be available to fund education, infrastructure, and debt repayment, or for use in a declared emergency.
- Requires additional revenue above historic trends to be deposited into a state "rainy day" fund, limiting unsustainable spending from one-time spikes in revenue.

City of Sunnyvale Staff Analysis: This measure will make major changes to the way the state sets aside money in reserve accounts. In the long run, this may be helpful in preventing large structural deficits that have historically plagued the state. A short term impact of this measure would be the potential for reduction in state-funded programs, but if passed with Proposition 1B, would actually increase funding in education and possibly infrastructure. The long term impact is that the state will be better prepared for economic uncertainties, which will help to minimize the impact on cities and other organizations that rely on state funding.

Impact to City Services: Could lead to increased infrastructure funding.

Fiscal Impact: Passage of Proposition 1A would extend the recently adopted 1% increase in the state sales tax rate, resulting in additional sales tax revenue to the state. The additional Vehicle License Fee increase may also result in backfilling of previously reduced safety-related funding such as SLESF (Supplemental Law Enforcement Services Funding).

Proposition 1B Education Funding. Payment Plan.

Measure Summary:

- Requires supplemental payments to local school districts and community colleges to address recent budget cuts.
- Annual payments begin in 2011-12.
- Payments are funded from the state's Budget Stabilization Fund until the total amount has been paid.
- Payments to local school districts will be allocated in proportion to average daily attendance and may be used for classroom instruction, textbooks and other local educational programs.

City of Sunnyvale Staff Analysis: This is presented as part of a larger budget reform package (measures 1A through 1F) that combined will stabilize our current state budget, and prevent us from seeing a repeat of the 2009 budget crisis. Ideally, that would translate to more stable state funding for the City of Sunnyvale. This measure lays out a timeline for reimbursing schools for more than \$9 billion in cuts that were made due to current economic conditions.

Considering the current state of the economy, the short term savings to the state should lessen the impact on city services funding by freeing up billions of dollars for the state. Schools are seeing reduced funding this year, and passage of 1B doesn't make it any worse. It simply shows that they will be paid back in the long run. The long term impact is that with the passage of 1A, the state should be in a much better financial position to handle economic downturns. Education repayments, while significant, are delayed until 2011-12, and will come from the state's new "rainy day fund". The economy likely will be in better shape by that time, making these education repayments feasible without a negative impact on California's budget.

Impact to City Services: Improves the state's position, making it less likely that the city will see a reduction in funding of city services.

Fiscal Impact: Short term cost savings to the state could prevent further cuts in state funding to the city. If 1A and 1B do not both pass, California runs the risk of further budget cuts, which would likely have a negative fiscal impact on the city.

Proposition 1C Lottery Modernization Act.

Measure Summary:

- Allows the state lottery to be modernized to improve its performance with increased payouts, improved marketing, and effective management.
- Requires the state to maintain ownership of the lottery and authorizes additional accountability measures.
- Protects funding levels for schools currently provided by lottery revenues.
- Increased lottery revenues will be used to address current budget deficit and reduce the need for additional tax increases and cuts to state programs.

City of Sunnyvale Staff Analysis: This is presented as part of a larger budget reform package (measures 1A through 1F) that combined will stabilize our current state budget, and prevent us from seeing a repeat of the 2009 budget crisis. Ideally, that would translate to more stable state funding for the City of Sunnyvale. This will modernize the California State Lottery to match what many other states are doing with success. By allowing these changes, the increased revenues to the state, along with the borrowing power associated with these changes, would provide some much needed assistance during this economic crisis. Impact to the city is minimal, but

this is another key factor to stabilizing the California budget to prevent a repeat of the spending cuts we have seen over the past few months.

Impact to City Services: Improves the state's position, making it less likely that the city will see a reduction in funding of city services.

Fiscal Impact: Short term cost savings to the state could prevent further cuts in state funding to the city.

Proposition 1D Protects children's services funding. Helps balance state budget.

Measure Summary:

- Provides more than \$600 million to protect children's programs in difficult economic times.
- Redirects existing tobacco tax money to protect health and human services for children, including services for at-risk families, services for children with disabilities, and services for foster children.
- Temporarily allows the redirection of existing money to fund health and human service programs for children five years old and under.
- Ensures counties retain funding for local priorities.
- Helps balance state budget.

City of Sunnyvale Staff Analysis: This is presented as part of a larger budget reform package (measures 1A through 1F) that combined will stabilize our current state budget, and prevent us from seeing a repeat of the 2009 budget crisis. Ideally, that would translate to more stable state funding for the City of Sunnyvale.

In the short term (through 2014), some First 5 Funds in Santa Clara County would be redirected to fund other health and human services program that are unfunded or severely under-funded due to the state deficit. The redirection of funds would stop after 2014, so in the long term, funding for these programs will be restored. There is significant funding available through the American Recovery and Reinvestment Act (ARRA). Should First 5 be approved, the additional funding would reduce or eliminate the negative impact of the reduced funds from the state.

Impact to City Services: Currently, First 5 funds support the Sunnyvale Family Ambassador Program and Comprehensive Approaches to Raising Educational Standards (CARES). CARES is a program designed to promote, reward and encourage educational attainment among child care professionals in Santa Clara County through a system of financial incentives and rewards. First 5 statewide provided \$16.7 million to prevent 65,000 children from being cut from the state's Healthy Families insurance program earlier this year.

Fiscal Impact: If this measures passes, First 5 Santa Clara funds for programs/services in the city may be reduced or eliminated in the short term,

potentially impacting services/programs offered at Columbia Neighborhood Center, including the Sunnyvale Family Ambassador Program, CARES to Sunnyvale child care providers, and parent education workshops. The impact of these cuts could be lessened through ARRA funding from various agencies.

Proposition 1E Ensures funding for children's mental health services. Helps balance state budget.

Measure Summary:

- Guarantees that certain funding intended for mental health programs goes toward mental health services for children.
- Provides temporary, two-year flexibility in the Mental Health Services Act (MHSA) – Proposition 63 of 2004 – to allow the state to fund the Early and Periodic Screening, Diagnosis, and Treatment Program for children and young adults under age 21.
- Guarantees and protects more than \$225 million in flexible funding for mental health programs.
- Helps balance state budget during this difficult economic time.

City of Sunnyvale Staff Analysis: This is presented as part of a larger budget reform package (measures 1A through 1F) that combined will stabilize our current state budget, and prevent us from seeing a repeat of the 2009 budget crisis. Ideally, that would translate to more stable state funding for the City of Sunnyvale.

If Proposition 1E does not pass (along with 1A through 1F), the city stands to lose much more through additional funding cuts at the state level. Should these cuts take place, we would likely see vital city services lose funding. Sunnyvale's priority should be to ensure a stable state budget, so that we can maintain stable funding for our city.

Impact to City Services: Sunnyvale residents receive mental health counseling services through the Fair Oaks Mental Health Clinic (serving both adults and children), operated by Santa Clara County. Sunnyvale may see a decrease in services offered through 2011 if the clinic is unable to obtain funding elsewhere. However, stimulus funding would likely fill some or the entire short term gap in funding. No long term impact.

Fiscal Impact: If this measure passes, a diversion of MHSA funds may impact the county's mental health services at its current levels in Sunnyvale. However, if it fails, it will be a significant blow to the state in its efforts to balance our state budget. If that happens, there will be a negative fiscal effect to the city, as further budget cuts for the cities would be inevitable.

Proposition 1F Elected Officials' Salaries. Prevents Pay Increases During Budget Deficit Years.

Measure Summary:

- Encourages balanced state budgets by preventing elected Members of the Legislature and statewide constitutional officers, including the Governor, from receiving pay raises in years when the state is running a deficit.
- Directs the Director of Finance to determine whether a given year is a deficit year.
- Prevents the Citizens Compensation Commission from increasing elected officials' salaries in years when the state Special Fund for Economic Uncertainties is in the negative by an amount equal to or greater than one percent of the General Fund.

City of Sunnyvale Staff Analysis: This is presented as part of a larger budget reform package (measures 1A through 1F) that combined will stabilize our current state budget, and prevent us from seeing a repeat of the 2009 budget crisis. Ideally, that would translate to more stable state funding for the City of Sunnyvale. This measure will restrict certain officials from receiving pay raises during budget deficit years. This will provide legislators with some incentive to keep a balanced budget.

Impact to City Services: None.

Fiscal Impact: No direct impact. However, by preventing these pay increases during tough economic times, it frees up more funding that could trickle down to the local level.

California Legislative Analyst's Office (LAO) Analysis

In February 2009, the Legislature and the Governor agreed on a budget package to bring the FY 2008-09 and FY 2009-10 budgets back into balance. With these changes, the state expects in FY 2009-10 to bring in about \$98 billion in revenues and spend about \$92 billion. As part of the February package, six propositions were placed on this ballot related to the budget. The Legislative Analyst's Office summary of these propositions and their effect on the State General Fund is in the table below.

As shown in the table below, the FY 2009-10 budget depends on access to about \$6 billion related to three propositions on this ballot – \$5 billion by borrowing from future lottery profits (Proposition 1C), up to \$608 million by redirecting dedicated childhood development funds to help the General Fund (Proposition 1D), and about \$230 million by redirecting dedicated mental health funds to help the General Fund (Proposition 1E). If the voters reject these three measures, the FY 2009-10 budget would not be in balance under current revenue forecasts. Consequently, the Legislature and the Governor probably would need to agree to billions of dollars of additional spending cuts, tax increases, and/or other budgetary solutions to bring the budget back into balance. It is unknown what these alternative actions would be, as they would be determined after this election.

Summary of Budget-Related Propositions			
Prop	Topic	Effect on State General Fund Budgets	
		2009-10	Next Few Years
1A	"Rainy day" reserve fund	Not significant	Higher tax revenues through 2012-13. Unknown net effect from other provisions.
1B	Supplemental payments for education	Potential savings in the billions of dollars	Potential savings in the billions of dollars in 2010-11, with potentially higher costs of billions of dollars annually thereafter.
1C	State Lottery	\$5 billion in benefit from borrowing from future lottery profits	Net increased costs of hundreds of millions of dollars annually.
1D	Early childhood development program funds	Up to \$608 million in savings	\$268 million annually in savings from 2010-11 through 2013-14.
1E	Mental health program funds	About \$230 million in savings	About \$230 million in savings in 2010-11.
1F	State elected officials' salary increases	Potential minor reduction in costs	Potential minor reduction in costs in some years.
Source: Legislative Analyst's Office <i>Overview of the State Budget</i> Publication date: February 25, 2009			

League of California Cities' Position on the Measures

The League of California Cities' board of directors on Monday, April 6, took formal action to support Propositions 1A-F on the May 19 statewide special election ballot. The board action came after the League's Revenue and Taxation Policy Committee recommended support in early April by a three-to-one margin.

The board concluded that this action is of critical importance to protecting city revenues, furthering infrastructure investment and rebuilding California's state and local economies. The board was confident that Proposition 1A offers the prospect for long-term fiscal reform and stability for state government as the new, less vulnerable rainy day fund is filled over the years. The board also noted that it supports Propositions 1A-F because neither the State nor cities can afford to stop all state and local infrastructure projects at a time when jobs and capital investment are critical to our recovery. If the propositions fail, it will only deepen the state's cash crisis and many of these projects will likely come to a halt.

FISCAL IMPACT

There is no fiscal impact to this report.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, in the Council Chambers lobby, in the Office of the City Clerk, at the Library, Senior Center, Community Center and Department of Public Safety; posting the agenda and report on the City's Web site; and making the report available at the Library and the Office of the City Clerk.

ALTERNATIVES

1. Adopt a SUPPORT position on all the proposed state ballot measures:
 - **Proposition 1A** Stabilizes State Budget. Reforms California Budget Process. Limits State Spending. Increases "Rainy Day" Budget Stabilization Fund.
 - **Proposition 1B** Education Funding. Payment Plan.
 - **Proposition 1C** Lottery Modernization Act.
 - **Proposition 1D** Protects Children's Services Funding. Helps Balance State Budget.
 - **Proposition 1E** Ensures Funding for Children's Mental Health Services. Helps Balance State Budget.
 - **Proposition 1F** Elected Officials' Salaries. Prevents Pay Increases During Budget Deficit Years.
2. Adopt alternative positions on the ballot measures.
3. Take no action at this time.
4. Other action as directed by Council.

RECOMMENDATION

For the reasons stated in the staff analysis section of this report, staff recommends Alternative 1: Adopt a SUPPORT position on all the proposed state ballot measures:

- **Proposition 1A** Stabilizes State Budget. Reforms California Budget Process. Limits State Spending. Increases "Rainy Day" Budget Stabilization Fund.
- **Proposition 1B** Education Funding. Payment Plan.
- **Proposition 1C** Lottery Modernization Act.
- **Proposition 1D** Protects Children's Services Funding. Helps Balance State Budget.
- **Proposition 1E** Ensures Funding for Children's Mental Health Services. Helps Balance State Budget.
- **Proposition 1F** Elected Officials' Salaries. Prevents Pay Increases During Budget Deficit Years.

Reviewed by:

Robert Walker, Assistant City Manager

Prepared by: Yvette Blackford, Intergovernmental Relations Officer

Approved by:

Gary M. Luebbbers
City Manager