

## **BIG OUTSTANDING PIECES OF THE PUZZLE**

### **ADDITIONAL CUTS/REVENUES**

- Additional cuts in Governor's budget not adopted by Dems (\$1.7 billion)
- Account for higher than projected revenues - \$1.3 billion
- More from Prop 10 & 63 (\$1 billion – would require going back to voters)
- Current budget is at least \$400 million short of Governor's level (+\$500 million phony cuts)
- Additional cuts - LAO letter - \$13.5 billion
- QEIA - \$450 million

### **RDA**

- Huff compromise
- Overall "hit" to budget, including compromise = \$700 million - \$1 billion

### **ENTERPRISE ZONES**

- There are potential reforms
- Currently costs approx. \$1 billion
- The elimination of Enterprise Zones is a permanent tax increase that the Governor is not sending to a vote by the people.

### **SINGLE SALES FACTOR/COST OF PERFORMANCE**

- Currently costs approx. \$1.4 billion
- Could move to seven-year election which does not score any budgetary savings
- Making Single Sales Factor mandatory is a permanent tax increase that the Governor is not sending to a vote by the people.

### **REALIGNMENT**

- Bad policy implications for law enforcement
- Entire budget is based on realignment proposal and saving \$5.9 billion by shifting services to the local level
- No plan for how to fund the locals providing the services after the taxes expire
- Must fix 3 crimes

### **LENGTH OF TAXES**

- **Starting Point:**
  - 18 months

## WHAT GOES ON THE BALLOT?

- Taxes
  - Cap
  - Pension Reform
  - **Starting Point:**
    - No measures tied
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## **NECESSARY FIXES**

### **PROBLEMS IN THE BUDGET THAT NEED TO BE ADDRESSED:**

- Off-Highway Vehicle Trust Fund (siphons \$10 million in user fees from designated purpose to GF)
- Maddy Fund redirection (\$55 million to emergency medical services)
- Education Protection Account – does not provide equitable funding for charter schools
- K-14 education funding deferrals – any new Prop 98 revenue should first go to unwinding the deferrals (tie to spending cap?)
- Fuel-tax swap – remove hold-harmless provision which does not allow for minimum guarantee to go down despite the loss in Prop 98 revenues resulting from the swap.
- Remove proposed transfer of ratepayer gas surcharge funds to the General Fund – this fund is supposed to pay for grants and rebates, not to support programs unrelated to energy efficiency.
- Fix proposed “tax amnesty” proposal (refunds if legitimate).
- Budget currently repeals SB 863 that provides additional benefit and cover for counties that participate in Williamson Act with landowners.
- Restore Williamson Act funding (\$10 million) – commitment to protect for next 4 years
- Remove water fees (\$13.5 million) commitment to protect for next 4 years
- Restore funding to County Fairs

### **OTHER**

- Consolidate & move presidential primary up to March
- Azusa Case Fix – court case that applies prevailing wage to all projects within Mello-Roos
- Fixed Price Contracts - grandfather in public work fixed price contracts entered into prior to the tax change

## BIG PICTURE

### REFORMS

#### PROPOSALS REJECTED:

#### TORT REFORM, CIVIL SERVICE REFORM, & TAX REFORM

#### PENSION REFORM – STATE & LOCAL EMPLOYEES

- **Starting Point:**

- Applies to both future and current employees (severability for existing) - (Admin: NO)
- Equal share of pension costs between employer & employee (50/50 split) - (Admin: NO)
- Increase retirement formulas (Little Hoover Commission) - (Admin: NO)
- Uniform standards and definitions for disability benefits- (Admin: NO)
- Reduce growing state payroll & salaries (LHC) - (Admin: NO)
- Voter approval for future increases (Admin: No)
- And all of the items below:

- **CURRENT PROPOSAL:**

- **Anti-Spiking – Current and Future Employees (as legally achievable)**

- No purchases of Air-Time (Admin: OK)
- Highest 5-year average. (Admin: Highest 3 year average, with CalSTRS exception for 25 years of service)
- Base pay [salary only – no vacation, overtime, car allowance, uniform allowance, etc.] used for determining final retirement benefits. (Admin: Base benefits on regular, recurring pay)
- No Double-Dipping /Revolving Door (Admin: Allow retired annuitants (cost effective for state), but forbid drawing a full-time salary and a pension from the same employer)

- **Cost Control– Current and Future Employees (as legally achievable)**

- Cap Final pension amount (Admin: Ok w/Cap of \$106K w/COLA – same as Social Security – and additional 12.4% for non-SS employees.)
- Increase employee cost sharing for health and pension benefits. (Admin: NO)
- Increase vesting time for health care.
- Disallow employer making employee's contributions/no pension "holidays" for employers or employees (Admin: Ok. Limit going below normal cost).
- No retroactive benefit increases (Admin: OK)
- Incentive-based 401-k style option for current employees in a manner that guarantees cost-saving

- **Future employees**

- Permit public employers to change (lower) of future unaccrued retirement benefits (Admin: Maybe)
- Mandatory hybrid pension plan. (Admin: Require creation of hybrid option, based on federal government model, to be offered by systems by July 1, 2012.

- **Oversight**
  - Governing board conflict of interest and greater transparency (Admin: Add 2 public members to each retirement board. For CalPERS, switch SPB representative to DOF)
- **Other**
  - 2/3 Legislative approval required for changes to salaries & benefits (Admin: Maybe)
  - Strengthen standards for revoking or reducing pensions of public employees and elected officials convicted of certain crimes involving the public trust. (Admin: Ok)
  - Legislature to set actuarially-sound rate for CalSTRS and fund within Prop 98
  - **SUMMARY OF WHAT WE THINK GOVERNOR AGREED TO:** Little Hoover Commission's recommendations - minus existing employees and no mandatory hybrid for current employees.

## REGULATORY REFORM

- **Starting Point**
  - Federal OMB model (Blakeslee)
- **CURRENT PROPOSAL**
  - Cost effective analysis of proposed major regulations and legislation
  - Improve the process for economic analysis of regulations
  - Improve the process for alternatives analysis of regulations
  - Improve economic analysis of legislation
  - Improve oversight of economic analysis and alternatives analysis requirements
  - Improve accountability by requiring retrospective review of regulations
  - Provide the capacity to undertake this review and oversight by dedicating a fee exclusively to pay for this function, paid by employers.

## CEQA

- **Attorney Fees**
  - **Starting Point:**
    - When awarding attorney's fees, the percentage of successful claims will be used to determine the attorney's fees award.
    - Fees only for reasonable costs incurred for successful claims
    - Prohibit courts from applying a multiplier which generally make awards excessively large
  - **Gov Proposal:** Increase fine for frivolous lawsuits from \$10k-\$20k
  - **Pro Tem:** level of discretion for courts instead of proportional awards
- **Document Dropping**
  - **Starting Point:**
    - Provide that a lead agency is not required to respond to a comment after the closure of the public comment period (unless in response to changes made to the project)
  - **Gov Proposal:** Limit to 50 pages

- **CEQA Exemption for Urban Infill**
  - **Starting Point:**
    - Allowable projects can be residential, commercial, or mixed-use.
    - Reasonable limitations on the size of the commercial project.
  - **Pro Tem:** Instead of exemption for Urban Infill, Require New Short Form EIR. Mandate development of new “short-form EIR” for specified projects to reduce paperwork and streamline process.
  - **Pro Tem:** Pro Tem mentioned: Exemption for retrofit of abandoned “big box” stores (SB 620)
  
- **GHG**
  - **Starting Point:**
    - Legislated that a zero-emission threshold is not required and that if best management practices are used and if the project meets any adopted threshold, then the project is deemed to have less than a significant impact.
  - **Gov Proposal:** Buchanan bill from last year
  
- **Fair Argument**
  - **Starting Point:**
    - Stated that an EIR was not necessary (could prepare a negative declaration or mitigated negative declaration) if a lead agency showed substantial evidence that there was no significant (mitigated or otherwise) impact to the environment
  - **Gov’s Response:** Rejected proposal
  - **Next step:** Increasing the threshold from “fair argument” to “preponderance of evidence” for filing claims.
  
- **Timeframe on Cumulative Impact Analysis**
  - **Starting Point:**
    - A project that is approved or proposed 90 days before the issuance of the EIR or from 30 days prior to the circulation of the neg dec or mitigated neg dec.

## SPENDING CAP

- **Starting Point**
  - Hard permanent cap (Admin: NO)
- **CURRENT PROPOSAL:**

- Hard cap (based on CPI & population) until:
  1. Specified budgetary debt is paid down (e.g. ERBs, Loans, Prop 1A borrowing, VLF GAP loan, Non-98 deferrals, education deferrals, maintenance factor)
  2. A 10% rainy day reserve is obtained
- Base Year 12-13.
- Carve Prop 98 spending out of cap
- Revenues above the cap to be used to pay down debt, to build reserve, or other 1-time expenses
- Transition to ACA 4: At end of the hard cap, implement provisions of ACA 4 (the 2010 measure). (Some of the dates in ACA 4 would need to be changed.)

## **EDUCATION REFORM**

- **Teacher Seniority [Last in, First Out (LIFO) reform]**
    - Allow teacher layoffs, transfers, assignments, reassignments and reappointments to be based on teacher performance instead of seniority.
  - **Substitute Pay**
    - Revise compensation requirements for substitute teachers by compensating at the full time reappointment rate beginning on the 22nd day (during a 60-day period) instead of the first day of service.
  - **March 15 deadline**
    - Extend deadline to notify teachers of layoffs and tenure status, giving school districts more time to evaluate their budget situation and send out more accurate notifications.
  - **Employee Dismissal for Cause**
    - Give local governing boards more freedom and authority to make staffing decisions by making the Commission on Professional Competence an advisory administrative law judge.
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