



Date: July 28, 2011
To: Mayor and Members of the City Council
From: Patrick H. West, City Manager
Subject: State Budget – Enacted FY 12 Budget

Introduction

On June 28, 2011, the State Legislature employed its newly-granted authority under Proposition 25 (2010) and enacted California's FY 12 budget with a majority vote. This budget sets into motion several controversial methods for closing the state's \$26.6 billion deficit. Three of the most significant adoptions to this year's budget includes: (1) an acceptance of increased sales tax revenues, (2) the statewide elimination of Redevelopment Agencies followed by a questionable method for requiring Redevelopment agencies to make "voluntary" payments to continue to survive, and (3) re-structuring of the distribution formula for allocating Vehicle License Fees (VLF) dollars to cities.

Budget Highlights

Increased revenues. At the time the budget was passed, state officials believed FY 12 revenues would be \$4 billion above January and May estimates. This updated projection was factored into the budget that Legislators voted on in June. If the \$4 billion in increased revenues do not materialize, the budget includes \$2.6 billion in mid-year "trigger" cuts that will go into effect.

Redevelopment. The Legislature passed a duo of bills that first eliminates Redevelopment Agencies statewide, and then questionably **requires Redevelopment agencies to make "voluntary" payments to continue to survive.** This two-bill proposal was enacted as ABx1_26 and ABx1_27.

If the City of Long Beach chooses to participate in the system created by ABx1_27, the payment that the Long Beach Redevelopment Agency would be required to make to the state would be \$34 million in the first year, and in excess of \$8 million each year thereafter.

Prior to the Legislature's move to dissolve Redevelopment Agencies to save the state \$1.7 billion in FY 12, the City of Long Beach worked on an alternative approach with the goal of providing the state with a voluntary, legal mechanism to secure the dollars necessary to balance the budget. The Community Redevelopment Association and the League of California Cities also offered ideas for consideration. The Legislature chose not to take any options presented, and instead adopted the two-bill proposal described above.

Vehicle License Fees, the City's General Fund and COPS Funding. Vehicle License Fee (VLF) rates decreased from 1.15% to 0.65%, effective July 1, 2011. Of greater significance to local governments, is SB 89, a last minute budget trailer bill that was passed to restructure the way VLF dollars are distributed to cities. This bill takes \$130 million from cities statewide to fund "realignment" of a few public safety

programs from the state to local governments. The bill takes \$1.7 million annually from the City's General Fund, and then provides approximately \$776,000 for specific public safety purposes. This action has increased the City's General Fund structural deficit in FY 12 by \$1.7 million, resulting in additional proposed reductions to all departments in the FY 12 Proposed Budget.

Enterprise Zones. The California Enterprise Zone Program (CAEZ) remains intact. The Governor's budget originally proposed to eliminate the CAEZ for a savings of \$581 million. After months of negotiation, the state's FY 12 budget will allow this program to continue operating as it has in years past. In 2010, Long Beach issued 7,200 employee vouchers, which offered a potential one-year value of \$91 million to local businesses.

Proposed Tax Extensions. The Governor originally desired a special election in March 2011 to extend tax increases that were scheduled to expire July 1, 2011. The Legislature was unwilling to put the tax extensions on the ballot; the higher tax rates expired at midnight on June 30, 2011.

The Governor will attempt to reinstate the higher tax rates as a way to reduce the state's deficit in future years. He has indicated that this may be accomplished through the initiative process with a special election in November 2012.

Health and Human Services. The FY 12 budget restores a limited amount of funding for annual flu clinics. The most significant loss to the City from the State's budget is the elimination of the Community Challenge Grant program. For many years the City's Health Department has received approximately \$210,000 from the state via this grant to implement teen pregnancy prevention programs.

Transportation. In March 2011, the Legislature reenacted the Gas Tax Swap from the 2010 Legislative Session. This Swap eliminated Proposition 42 funding and replaced it with an excise tax of 18 cents per gallon of fuel. Affirmation of this legislative action was necessary to ensure it would meet standards set by Proposition 26 (2010). At this time, no adverse impacts to the City's transportation dollars are expected from this action.

Elimination of State Agencies and Boards/Commissions. The budget eliminates 20 state boards, commissions, task forces, offices, and departments.

Vehicle Registration Fees. Effective July 1, 2011, the Vehicle Registration Fee increased by \$12.00. Rates have gone from \$34.00 to \$46.00.

Please contact Tom Modica, Director of Government Affairs and Strategic Initiatives at 8-5091 if you have any questions.

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