



**Date:** October 16, 2008  
**To:** State Legislation Committee  
**From:** Patrick H. West, City Manager  
**Subject:** **Summary of the Approved FY 2008-09 State Budget**

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On September 23, 2008 the Governor signed the Fiscal Year (FY) 2008-09 State Budget into law, 85 days after the official start of the State's fiscal year (July 1). This budget aims to address the State's \$15.2 billion budget shortfall with a combination of reductions and increased revenues.

The General Fund portion of the Budget amounts to \$103.4 billion and includes a reduction of \$850 million, \$510 million of which is a result of the Governor's vetoes. While the Budget provides for a modest reserve of \$1.7 billion in FY 2008-09, it projects a deficit of \$1 billion in FY 2009-10. This memo provides an overview of the major programs of interest, including direct impacts to Long Beach that can be identified.

**BACKGROUND INFORMATION**

On January 10, 2008 the Governor released his initial draft of the FY 2008-09 State Budget. At that time, the projected budget deficit for FY 2008-09 was \$14.5 billion. Left unaddressed, the projected gap would grow to \$24.3 billion based on updated revenue projections, revised caseload estimates and higher costs. The single largest factor contributing to this increase was a \$6 billion decrease in estimated General Fund revenues. During the Special Session of the Legislature earlier this year, lawmakers reduced the overall budget deficit, thereby leaving a remaining budget gap of \$17.2 billion for 2009.

Key elements of the January budget proposal included:

- Ten percent reductions across the board for all General Fund departments and programs, Boards, Commissions, and elected offices (including the legislative and judicial branches)
- No new taxes
- Selling the \$3.3 billion of authorized Economic Recovery Bonds (ERBs) by the end of February 2008 and suspending the pre-payment of ERBs scheduled for 2008-09
- \$4.5 billion in reductions to the Health and Human Services Agency
- Suspending the Proposition 98 Guarantee and providing \$4 billion (or 9.2 percent) less than the Guarantee would have required in 2008-09, as well as \$4.4 billion in K-12 education reductions and \$1.1 billion in Higher Education reductions
- \$378.9 million in reductions to the California Department of Corrections and Rehabilitation
- Closing 48 state parks

The Governor's May Revise, released on May 14, 2008 proposed borrowing against Lottery revenues and imposing strict spending cuts in the current and future budget years, while not raising taxes. It also called for the creation of the Revenue Stabilization

Fund (also known as the Rainy Day Fund), where revenues above a reasonable, long-term average rate of growth would be deposited. Monies in the Rainy Day Fund would only be available for transfers to the General Fund to bring revenues up to the long-term average in years with below-average revenue growth, as projected for 2008-09.

On August 20, 2008 in an effort to move State Budget negotiations forward in the Legislature, the Governor released his proposed State Budget Compromise. The proposed compromise budget focused on:

- Additional program reductions
- Revenue increases including a three-year temporary one percent sales tax increase
- Changes to the lottery to improve revenues and securitize future revenues
- Budget reform

### **LOCAL REVENUE TAKEAWAYS**

The approved State Budget does not include any borrowing from local governments, including Proposition 1A (property taxes) and Proposition 42 (local street and road improvement) funds. The Budget does, however, call for an additional 5 percent reduction in funding for various library programs, in order to reflect the original 10 percent decrease called for in the Governor's proposed January budget. These cuts will result in an approximate \$27,797 loss to Long Beach.

### **REDEVELOPMENT**

The State Budget includes a one-time \$350 million pass through of local redevelopment agency funds to the State. This fund shift will generate an equal amount of savings in Proposition 98 General Fund dollars, and will be used to supplant a portion of Proposition 98 funds required for the Educational Revenue Augmentation Fund (ERAF). Preliminary estimates of this fund shift for the Long Beach Redevelopment Agency (LBRDA) amount to approximately \$6.2 million. The Budget, however, allows redevelopment agencies (RDA's) to borrow up to 50 percent of the FY 2008-09 amount allocated to their respective Low to Moderate Income Housing Funds (housing set asides) for use in paying for this fund shift, as long as that money is repaid over the next ten years.

Due to recent findings by the State Controller's office indicating that some RDA's have not been passing through the full amount of property tax increment revenues to local taxing jurisdictions, including local education agencies, legislation included with the Budget will now require RDA's to report all payments and obligations to local taxing jurisdictions for FY 2003-04 through FY 2008-09 to their respective County Auditors for verification.

While some agencies have had problems with passing through the required funds, we believe that LBRDA has been fully compliant with these pass-through requirements. RDA's found to be in violation will be required to remit any outstanding payments to the necessary local taxing authorities, with the exception of funds owed to schools that offset State costs. These funds will be deposited into the ERAF. The State Budget estimates these transfers will result in \$98 million statewide for FY 2008-09.

### **PUBLIC SAFETY**

The State Budget provides \$107 million in General Fund resources each for the Citizen's Option for Public Safety (COPS) Program and Juvenile Justice Crime Prevention Act

Program, and maintains \$31.5 million in General Fund support for the Booking Fee Reimbursement Program. These amounts represent the 10 percent reductions in funding initially proposed in the Governor's January budget. These reductions will result in losses to Long Beach of \$95,000 for COPS and \$6,000 for the Booking Fee Reimbursement Program.

The Budget also eliminates funding for grants to local law enforcement agencies for mentally ill offenders for a \$40 million General Fund savings. Counties can choose to continue funding this program with available Proposition 63 (Mental Health Services Act) funds.

**HEALTH AND HUMAN SERVICES**

Major State Health and Human Services programs such as Medi-Cal, CalWORKS, Children's Services, and Alcohol and Drug Programs will see an overall increase in the total amount of funds allocated for FY 2008-09 compared to FY 2007-08. However, other major programs such as Development Centers and the Department of Public Health will see an overall decrease in funding. While a majority of the reductions made generally relate to services provided at the county level, cuts to key health programs will have significant impacts on the City. The Long Beach Department of Health and Human Services estimates the impacts from the State Budget on various programs will result in a loss of \$988,028. The following is a breakdown of the State Budget impacts on the Health and Human Services Department:

<b>Program</b>	<b>FY 2009 State Budget Impacts</b>
AIDS/Youth Health Programs	-\$202,000
Maternal and Child Health Programs	-\$650,000
Communicable Disease/TB Housing	-\$10,000
Epidemiology Investigations	-\$9,000
10% Reduction to Environmental Health (includes water quality and recreational water testing programs)	-\$25,000
10% Reduction to SB 90 (Mandated Cost Reimbursement)	-\$14,400
Medi-Cal Revenue*	-\$34,065
Substance Abuse Program	-\$43,563
Emergency Shelter Program for Local Governments (1,900 fewer available shelter beds statewide)**	\$0
<b>TOTAL</b>	<b>-\$988,028</b>

\*122,000 individuals are currently enrolled in Medi-Cal and SCHIP programs, and the approved State Budget may result in an estimated 10 percent of them becoming ineligible to receive health coverage. It is estimated that up to 2,000 individuals (1,000 children) may lose coverage daily.

\*\*The Department of Health and Human Services does not directly receive any State Housing and Community Development (HCD) Emergency Housing Assistance Program funds; however, several Long Beach shelters do receive these funds, such as the Winter Shelter.

The Health Department has begun to prepare contingencies to ensure the Health Fund's balanced budget is not compromised.

The State Budget limits fee-for-service Medi-Cal payments for inpatient care at hospitals that do not contract with Medi-Cal through the California Medical Assistance Commission

(CMAC), and also limits the amount that participating plans must pay hospitals that are out of the plan's network for emergency services and for post-stabilization services provided to Medi-Cal beneficiaries.

### **SENIOR SERVICES**

While the Governor's May Revise proposed retaining funds from the January 2009 federal cost-of-living adjustment (COLA) for the Supplemental Security Income (SSI) program rather than passing them on to recipients, the State Budget does include this federal COLA, which on January 1, 2009, will increase monthly grant payment levels from \$870 for aged or disabled individuals and from \$1,524 for aged or disabled couples to \$887 and \$1,550 respectively. The State Budget also permanently suspends provision of the June 2008 and June 2009 State Supplementary Payment (SSP) program COLA's, which amount to \$300.3 million.

### **INFRASTRUCTURE BOND IMPLEMENTATION**

#### ***Proposition 1B: Transportation Bonds***

The State Budget includes a total of \$4.7 billion for transportation bond funding. Of this amount, \$350 million is allocated for Local Transit, \$250 million for Local Streets and Roads, \$201 million for the State-Local Partnership Program, and \$58 million for Port Security.

Assembly Bill (AB) 88 authorized an appropriation of \$187 million for cities from the Proposition 1B Local Streets and Roads account. Funds will be available on a first come, first served basis to cities such as Long Beach that have already received their full allocation in FY 2007-08. The Long Beach Public Works Department is preparing to submit the City's application for these funds, so that anticipated road repairs can continue ahead of schedule.

#### ***Proposition 1C: Housing Bonds***

\$390.5 million is allocated toward Proposition 1C programs, with \$200 million for the Regional Planning Housing and Infill Incentive Account, \$95.5 million for the Affordable Housing Innovation Fund, and \$95 million for the Transit-Oriented Development Implementation Fund. The Budget does not include the \$30 million previously included in earlier versions of the budget for Urban, Suburban, and Rural Parks grants.

#### ***Proposition 1E: Flood Prevention Bonds***

The Budget includes \$807.8 million from Proposition 1E and Proposition 84 bond funds and additional staff positions for the Flood SAFE California Program (\$416.6 million), levee evaluations and the repair of critical levee erosion sites (\$126.5 million), and ten flood control capital projects (\$264.7 million). The Budget also provides \$2.8 million and additional staffing to establish the Central Valley Flood Protection Board within the Department of Water Resources.

#### ***Proposition 84: Water & Parks Bonds***

Excluding flood control, the Budget provides \$394.8 million in Proposition 84 funds for natural resources programs including:

- \$89.4 million for the State Coastal Conservancy to restore coastal wetlands and watersheds and promote public access to the coast.
- \$26.4 million for the Ocean Protection Council to develop marine protected areas and enhance habitat for marine species.

- \$26.3 million for the California Conservation Corps and local conservation corps for public safety and watershed restoration projects, as well as grants to local corps for acquisition and development facilities to support local corps programs.
- \$16.7 million for Parks for deferred maintenance, interpretive exhibits, and cultural and natural stewardship projects at State parks.
- \$10.8 million and additional staffing for environmental and ecosystem restoration activities at the Salton Sea.

### **TRANSPORTATION**

The State Budget includes approximately \$17.3 billion for the State's transportation programs, which is a decrease of \$212 million over the previous year's funding levels due to a one-time shift of local Proposition 1B funds for local road maintenance and transit projects appropriated in the 2007 Budget Act.

Caltrans' budget includes \$13.8 billion, which is a reduction of \$177 million over the previous year due primarily to lower Federal and State excise tax revenues, thereby making less funding available for projects. This amount includes:

- \$1.5 billion—State Transportation Improvement Program (STIP)
- \$2.4 billion—State Highway Operation and Protection Program (SHOPP)
- \$110 million—Traffic Congestion Relief Program (TCRP)
- \$1.9 billion—Local Non-STIP Projects
- \$1.9 billion—Local Streets and Roads Maintenance
- \$826 million—Transportation Projects including State Transit Assistance
- \$7.9 billion—Capital Outlay Support, State Highway Operations and Maintenance, Bond-Funded Projects and Support, Transit Support, Local Assistance Support, and Administration Costs

### ***Proposition 42: Sales Taxes on Gasoline***

The Budget reflects full Proposition 42 funding of \$1.4 billion, including \$573 million for the State Transportation Improvement Program (STIP) and \$286 million for the Public Transportation Account (PTA). The Budget also fully funds the repayment of Proposition 42 loans to the General Fund at \$83 million for FY 2008-09. Long Beach expects to receive approximately \$4.8 million of Proposition 42 funds in FY 2009, which will be used to support additional pothole crews and other essential repair projects.

### **CAREER TECHNICAL EDUCATION**

\$70 million is provided in the Budget to continue the implementation of the Governor's initiative, begun in 2005-06, which seeks to improve high school vocational programs that are linked with community college career programs. This amount includes \$20 million in ongoing funds in the California Community College budget, the second increment of \$38 million from the CTA vs. Schwarzenegger settlement, and \$12.5 million one-time funds included in trailer legislation from the Public Interest Research, Development and Demonstration Fund. The expenditure plan for these funds is expected to include:

- Additional Grant Opportunities for New Career Technical Education Programs and Curriculum
- Expansion of Career Pathways and Articulation
- Teacher Recruitment and Retention

- Efforts to Expand Business and Industry Engagement
- Funding for 61 New “Green” Partnership Academies

### **K-12 SCHOOLS & COMMUNITY COLLEGES**

The Budget includes \$41.9 billion in General Fund support for K-12 education and community colleges to fund the minimum Proposition 98 Guarantee in 2008-09. This represents an increase of \$1.5 billion over the current fiscal year. The California Community College system is funded at over \$9.2 billion (\$4.7 billion General Fund). For K-12 education, the Budget includes \$244.3 million for a 0.68 percent COLA for school apportionments. However, no COLA is provided for categorical programs.

Proposition 98, the voter-approved constitutional amendment, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

### **HIGHER EDUCATION**

A total of \$20.7 billion from all revenue sources is provided for Higher Education funding. The University of California (UC) system is funded at over \$5.6 billion (\$3.3 billion from the General Fund), and the California State University (CSU) system is funded at over \$4.5 billion (\$3 billion from the General Fund).

Since 2004, the University of California (UC) and California State University (CSU) have participated in a Higher Education Compact agreement with the Governor. The Compact provides a six-year resource plan to address annual base budget increases including general support increases of up to 5 percent, enrollment growth of 2.5 percent, student fee increases that may not exceed 10 percent, and other key program elements through 2010-11.

While the State's budget deficit prevents fulfillment of the provisions in the Higher Education Compact, additional General Fund resources are being provided to limit mandatory undergraduate fees to an increase of 7.4 percent for UC students and 10 percent for CSU students. The Budget maintains the student fee provisions of the Compact and will increase undergraduate fees for UC to \$7,126 and for CSU to \$3,048. Graduate fees will also increase to \$7,986 for UC, \$3,540 for CSU teacher preparation students, and \$3,756 for other CSU graduate programs.

### **LOTTERY SECURITIZATION**

The Legislature approved State Constitutional Amendment (SCA) 12 that would allow State lottery funds to be used for public purposes other than solely education, and would authorize the Legislature to sell future lottery revenues and rights to receive those revenues to an authorized entity to issue bonds to fund that purchase. The constitutional amendment will be provided to voters as a ballot measure on the next statewide ballot following this November. Future proceeds of an improved State lottery would be securitized at an estimated total of approximately \$5 billion in FY 2009-10, with additional revenues to be used to pay down debt and fill the Rainy Day Fund in the out-years.

### **BUDGET REFORM**

Several key budget reform measures were incorporated into the State Budget including:

- Increasing the size of the Rainy Day Fund from 5 percent of General Fund expenditures to 12.5 percent.
- Requiring annual transfers to the Rainy Day Fund of 3 percent of General Fund dollars and eliminating the ability to suspend those annual transfers. When monies must be drawn from the Rainy Day Fund during economic downturns, the transfer would not occur.
- Requiring that all current year revenue above 5 percent of the amounts included in the Budget Act be transferred to the Rainy Day Fund, after first providing funding to education as required under Proposition 98.
- Restricting Rainy Day Fund transfers to the following:
  - Actual revenues during the fiscal year must be below a specified level.
  - Funds transferred from the Rainy Day Fund back into the General Fund must be appropriated in a stand-alone bill, and the amount transferred during a fiscal year would be limited to the amount that would bring revenues up to prior year spending adjusted by population and per capita personal income growth.
- When the Rainy Day Fund balance reaches 12.5 percent, excess funds would be available for one-time purposes only.
- Authorizing the Director of Finance to do the following when it is determined at mid-year that revenues have fallen below specified levels:
  - Reduce State operations budgets by up to 7 percent without modifying or suspending the law.
  - Freeze COLA's, rate increases or increases in State participation in local costs for up to 120 days.
  - Requires the Governor to submit urgency legislation to permanently suspend COLA's and other rate increases. If the Governor fails to act within the 120 days, or the Legislature fails to adopt the suspension, the COLA's and other rate increases will be reinstated.

Attached is a chart summarizing the projected impacts from the State Budget on City departments and services. If you have any questions or require additional information, please contact Tom Modica, Manager of Government Affairs, at 8-5091.

CC: Mayor and Members of the City Council  
Suzanne Frick, Assistant City Manager  
Reginald Harrison, Deputy City Manager  
All Department Heads  
Dave Wodynski, Manager, Budget and Performance Management  
Tom Modica, Manager of Government Affairs  
Samara Ashley, Director of Government Affairs (Harbor)  
Ryan Alsop, Manager of Government and Public Affairs (Water)  
Jyl Marden, Assistant to the City Manager  
Mike Arnold and Associates

Attachment

PHW: TM: jb

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**IMPACTS OF THE FY 2009 STATE BUDGET ON CITY OF LONG BEACH**  
**DEPARTMENTS & SERVICES**

SEPTEMBER 23, 2008

<b>Description of Impact</b>	<b>Department</b>	<b>Projected FY 2009 Reduced Amounts</b>
AIDS/Youth Health Programs	Health and Human Services	\$202,000
Maternal and Child Health Programs	Health and Human Services	\$650,000
Communicable Disease/TB Housing	Health and Human Services	\$10,000
Epidemiology Investigations	Health and Human Services	\$9,000
10 percent reduction to Environmental Health (includes water quality and recreational water testing programs)	Health and Human Services	\$25,000
10 percent reduction in SB 90 (Mandated Cost Reimbursement)	Health and Human Services	\$14,400
MEDI-CAL Revenue*	Health and Human Services	\$34,065
Substance Abuse Program	Health and Human Services	\$43,563
Emergency Shelter Program for local governments (1,900 fewer available shelter beds statewide)**	Health and Human Services	\$0
Public Library Foundation reduced by 10 percent	Library Services	\$27,797
10 percent reduction in Citizen's Option for Public Safety per-capita grants	Police Department	\$95,000
10 percent Booking Fee Reimbursement Program reduction	Police Department	\$6,000
One-time \$350 million pass through of local redevelopment agency funds to the State	Redevelopment Agency	\$6,200,000
<b>TOTAL LONG BEACH IMPACTS</b>		<b>\$ 7,316,825</b>

\*122,000 individuals are currently enrolled in Medi-Cal and SCHIP programs, and the proposed State budget may result in an estimated 10 percent of them becoming ineligible to receive health coverage. It is estimated that up to 2,000 individuals (1,000 children) may lose coverage locally.

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