



**Date:** August 28, 2012

**To:** Mayor and Members of the City Council

**From:** Patrick H. West, City Manager

**Subject:** Adopted State Budget Analysis

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**Introduction**

The Governor enacted the State's FY 13 budget on June 27, 2012. Budget components were assembled under the assumption that the Governor's tax measure, Proposition 30 (2012), will pass, and totals \$91.3 billion in general fund expenditures, and \$93 billion in revenues. The Governor's tax measure is expected to generate between \$5 billion to \$7 billion in FY 13. Should the tax measure fail, the Budget includes \$6 billion in trigger cuts that primarily impact education.

The State's FY 13 budget relies heavily on the Governor's tax proposal as well as several one-time revenue sources. Redevelopment assets comprise a considerable portion of one-time revenues that the State is depending on to meet revenue targets. The budget also consolidates and combines 50 boards, commissions, offices, departments and task forces, cuts State payroll by five percent, and suspends and repeals State mandates to further cut costs.

**Key Points**

***Redevelopment Clean Up Provisions***

Since the passage of AB 26x (2011), the City has continuously advocated for specific clean up language to protect City assets as redevelopment is unwound. Included in the FY 13 budget are three provisions that if implemented as discussed during negotiations with the City, could be helpful to Long Beach.

These include:

1. Return of City/Agency loans to the City;
2. Allow the City to access existing bond proceeds for specified projects; and
3. Return of Redevelopment (RDA) property to the City.

These three provisions were included in the final budget trailer bill, along with two additional provisions that were not discussed during negotiations, and which the City opposed. Though AB 1484, provides a legislative means for City/Agency loans to be returned to the City, the bill requires 20 percent of the loan be dedicated for affordable housing. The City opposed the 20 percent dedicated affordable housing requirement, as the City/Agency loans were never intended for that purpose; rather the large majority of the loan repayment was expected to benefit the City's General Fund. AB 1484 also includes precarious language allowing the State's Department of Finance (DOF) to determine the amount of

cash Long Beach must transfer to the State before given access to loan repayments, bonds and former RDA properties. If the City disagrees with DOF's calculations, and refuses to make the payment, AB 1484 allows DOF to retain property tax revenues due to the City to make up the difference. This authority is referred to as the "claw back" mechanism, and many cities, including Long Beach have voiced strong opposition to the authority is provides DOF.

The process to gain access to the loan funds, bond funds and property is expected to take at least year. The City must first engage in an outside review of its ROPS expenses, for the State to determine how much they believe is owed. The State will request that a cash payment is made to the taxing entities. Once that payment is made, the City will receive a "Notice of Completion," after which the City may access a portion of its loans (subject to certain calculations in State law) and approval by the Oversight Board and DOF. In order to access the property, the City must create a long-term property management plan. Bond proceeds will also be subject to the "Notice of Completion" and require Oversight Board and DOF Approval.

#### ***Brown Act Mandate Suspension***

As a part of the Budget, the Governor suspended the Brown Act for three years. This move is expected to save the State \$96 million over the three years. Though the suspension means cities no longer need to conform to the Brown Act, Long Beach will continue to adhere to all of the Act's provisions, including those that stipulate meeting agendas must be posted 72 hours in advance and the right for public comments on all agenda items. Long Beach does not foresee the suspension will have an impact on City operations.

#### ***Hayden's Law Mandate Suspension***

Hayden's Law was enacted in 1997, and changed State policy at it relates to shelter care for stray and abandoned animals. Most notably, Hayden's Law lengthened the period of time, generally from 72 hours to six days, for which animals are cared for at animal shelters before the animal could be euthanized. This law is considered a state mandate, and has been suspended since 2009. For the FY 13 budget, the Governor continues to suspend Hayden's Law, but does not repeal it. This will not impact the City's treatment of animals at the Animal Care Center, as the City has continued to hold animals for up to six days and in some cases, even longer since the mandate was initially suspended in 2009.

#### ***Department of Boating and Waterways***

The budget moves the State's Department of Boating and Waterways under the Department of Parks and Recreation, as a division of Parks and Recreation. However, given the change, most Department of Boating and Waterway functions will remain intact. In addition, the Governor's Budget eliminated the Commission on Boating and Waterways; but AB 737 (Buchanan) reinstates the

Commission within the Division of Boating and Waterways. The reinstated Commission maintains the same current membership, compensation, and selection criteria but is reduced in terms of scope and responsibilities. The Commission will no longer have the authority to dictate how boating loans and grants are disbursed throughout California, making its role advisory in nature and in line with those of the California State Parks and Recreation Commission.

***Law Enforcement Grants***

The FY 13 State budget creates a new Board of State and Community Corrections (BSCC). This Board is responsible for providing local governments with technical assistance and coordination for realignment. The Budget also provides the BSCC with authority to issue \$20 million in public safety grant funds to local agencies, if the Governor's tax measure passes. Specifics related to these grants have not been developed. If Proposition 30 passes, the BSCC will provide additional information on the grants. If Proposition 30 fails, the \$20 million in grant funds will count towards the \$6 billion trigger cuts, and not be available for distribution.

***Local Government Seat for Regional Water Quality Control Board Eliminated***

The composition of Regional Water Quality Control Boards (RWQCB) was changed as part of the State Budget. The number of RWQCB members will be reduced from nine to seven, taking away a dedicated local government representative on the RWQCB; and instead of the current structure, the budget enables the Governor to appoint all seven members of the board. Legislative language prescribes that six members of the board shall be appointed on the basis of his or her demonstrated interest or proven ability in the field of water quality control, and one member shall be appointed as a public member. This change in Board composition affects Long Beach, as the Los Angeles RWQCB is one of a few agencies responsible for setting TMDL standards in Long Beach and the surrounding cities. Without a dedicated local government representative on the Board, it will become increasingly essential for Long Beach to engage with Board members to demonstrate the steady process the City has made with issues related to water quality and press for continued involvement from upstream cities.

**Next Steps**

Voters will decide on Proposition 30, the Governor's Tax measure on November 6, 2012. The outcome of this vote will influence State budget decisions over the next five years. A fiscal analysis shows Proposition 30 has the potential to generate increased State revenues, but these revenue amounts will vary over time. For FY 13, the tax may generate anywhere from \$4.8 billion to \$6.9 billion; for FY 14 through FY 16, from \$5.5 billion to \$6.9 billion; and for FY 17, the tax may generate revenues ranging from \$3.1 billion to \$3.4 billion.

August 28, 2012  
Mayor of Members of the City Council  
Page 4

Proposition 30 increases personal income tax on annual earnings over \$250,000 for five years; and increases sales and use tax by a half cent for four years. The measure allocates 89 percent of the temporary tax revenues to K-12 schools and 11 percent to community colleges.

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

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