



FY 13 STATE BUDGET: CITY OF LONG BEACH ANALYSIS

REVISED MAY 2012

General Overview

On May 14, 2012, the Governor released a revised Fiscal Year 2013 (FY 13) state spending plan with \$96.2 billion in General Fund expenditures, and \$81.3 billion in revenues. The deficit has nearly doubled from the January projection of \$9.2 billion to \$15.7 billion. The increase is largely a result of a reduced revenue outlook (\$4.3 B), higher costs to fund schools due to lower property tax receipts and higher revenues compared to FY 12 (\$2.4 B), and decisions by the federal government and courts to block budget cuts such as requiring co-payments for MediCal services (\$1.7 B). These adjustments are slightly offset by \$1.9 billion due to a variety of other factors, such as lower-than-expected caseloads. To meet this deficit, the Governor's budget relies on expenditure reductions (\$8.3 B) and new tax measures (\$5.9 B). Under the May Revision, General Fund spending for K-14 schools would increase by 16 percent - providing \$5.2 billion in additional funding. If the tax measures fail, school funding would return to current levels, essentially reversing the 16 percent increase.

Proposed Expenditure Reductions

- Implementing various reductions to hospital and nursing home funding to lower Medi-Cal costs. (Savings of \$396 million)
- Reducing IHSS hours by 7 percent (Savings of \$99 million).
- Prohibiting colleges and universities that are unable to meet minimum performance standards from participating in the Cal Grant Program, as well as aligning future student awards to federal financial-need standards (Savings of \$38 million).
- Reducing the cost of state employee compensation by 5 percent through a reduced workweek or a commensurate reduction in work hours and pay (Savings of \$402 million). The Governor has expressed an intention to avoid a furlough program and mitigate layoffs.
- Using local reserves to offset General Fund cost for local trial courts on a one-time basis and pausing the court construction program for another year (Savings of \$544 million)
- Using proceeds from the recent National Mortgage Settlement to offset existing General Fund costs for assisting homeowners and protecting consumers, rather than creating new programs. (Savings of \$292 million)
- Creating a framework to transfer cash assets previously held by redevelopment agencies to cities, counties, and special districts to fund core public services. Assets transferred to schools will offset General Fund Costs (Savings of \$1.4 billion)
- Making various adjustments, including using a FY 12 over appropriation of the minimum guarantee to pre-pay Proposition 98 funding required by a court settlement (Savings of \$1.5 billion)

New Tax Measures

The new tax measures include an increase in income tax on the state's wealthiest taxpayers for seven years and an increase in the state sales tax by one-quarter percent for four years. Absent the additional revenue, this proposal enacts automatic mid-year trigger cuts. School districts will bear the brunt of any trigger-cut reduction. This trigger cuts include:

- \$5.5 billion reduction in funding for schools and community colleges through Prop 98
- \$250 million reduction for each of the University of California and California State University systems

- Reduced funding for public safety programs, including decreasing public safety officers in the departments of Parks and Recreation (park rangers) and Fish and Game (wardens), and elimination of lifeguards at state beaches

POTENTIAL LONG BEACH IMPACTS

- **Areas with no adjusted impacts in the May Revision:**
 - No impact to the City's COPS grant funding
 - No change in the Governor's position on Pension Reform
 - No proposal to reform or eliminate Enterprise Zones
 - Continues to recommend elimination of all State Library funds for cities
 - No change to recommendation to merge the Department of Boating and Waterways with the Department of Parks and Recreation.
 - No expected impact to City transportation funds from State Gas Tax, although the Governor is proposing to shift some Gas Tax funds to the General Fund. Further analysis is needed to determine the exact impact on local Gas Tax revenues.
- **Redevelopment:** The May Revision reflects updated estimates of property tax revenue for education. K-14 schools are expected to receive approximately \$818 million in FY 12 and \$991 million in FY 13, a \$232 million and \$89 million decrease from what was originally forecasted, respectively. The Governor also proposes that K-14 schools be allowed to retain 1 percent of the property tax annually received pursuant to ABx1 26 above the Proposition 98 guarantee. The May Revision also proposes legislation that creates a framework for successor agencies to transfer cash asset not obligated or reserved for legally authorized purposes to cities, counties, special districts, and K-14 school in FY 13 (under ABx1 26, there is no deadline for this transfer). It is estimated that schools will receive \$1.4 billion in FY 13 and \$600 million in FY 14 from this transfer. This one-time transfer will be used to offset General Fund costs for K-14 education. The City is concerned that the \$1.4 billion is potentially overstated and may include cash that cannot legally be transferred to the State, such as bond proceeds, funding with affordable housing restrictions, and cash needed to fund legally enforceable obligations.
- **Courthouse Construction:** The May Revision proposes a decrease in \$240 million General Fund on a one-time basis by redirecting an equal amount from court construction funds to support trial court operations. This pause in construction will delay design activities for up to 38 court projects; however, up to six projects that are near design completion are proposed to proceed to construction in FY 13. Ongoing, \$50 million will be redirected from court construction funds to support trial court operations. The construction of the new courthouse in Long Beach is not expected to be affected, as it is already under construction.
- **Workforce Development:** The proposed changes in CALWORKS and CALGrants may drive an increase in usage of service provided by Long Beach. The CALWorks changes may create an expanded list of activities that meet work hours requirements and may drive more people to see us for training and other related activities. The CALGrant changes may require recipients to start to seek assistance from us in the area of training. Additionally, a reduction in state employee hours may impact the City's scheduling coverage as the City partners extensively with the State Economic Development Department.
- **Grants for City Police Departments:** The May Revision includes \$20 million General Fund to create a new grant program for city police departments, but does not state what this money could be used for.

- **National Mortgage Settlement:** The National Mortgage Settlement stipulates that California will receive \$410.6 million in discretionary funds for administrative costs and to support programs that benefit California homeowners affected by the mortgage and foreclosure crisis and other consumers. The May Revision proposes trailer bill language to support the following programs:
 - \$41.1 million paid as a civil penalty into the Unfair Competition Law Fund to offset the costs of various DOJ programs.
 - \$44.9 million to support the DOJ's Public Rights and Law Enforcement programs relating to public protection and consumer fraud enforcement and litigation.
 - \$8.2 million for the Department of Fair Employment and Housing's ongoing efforts to prevent and eliminate unlawful discrimination in housing and the prosecution of violations under the Fair Employment and Housing Act.
 - \$198 million to offset General Fund costs for housing bond debt service for those programs funded with Proposition 46 and Proposition 1C housing bonds that assist homeowners.
 - The Remaining \$118.4 million will be reserved for similar uses in FY 14.

- **Public Safety Realignment:** The 2011 Realignment is funded through two sources – a state special fund sales tax of 1.0625 percent and a dedicated portion of Vehicle License Fees (VLF). Although the revenue stream for 2011 Realignment is ongoing, the initial program allocations were for FY 12 only. In the May Revision, the Administration is proposing trailer bill language to create a permanent funding structure for 2011 Realignment. The funding structure is designed to provide local entities with a known, reliable, and stable funding source for these programs.

- **Health Department:** Currently, there is no expected impact to the Health and Human Services Department in the May Revision.