



**Date:** January 11, 2013  
**To:** Mayor and Members of the City Council  
**From:** Patrick H. West, City Manager  
**Subject:** Governor's January Budget for FY 14

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The Governor released his proposed budget for FY 14 on January 10 in accordance with the State Constitution. This budget is the first in many years that does not demonstrate a deficit. Details pertaining to local government issues are described in the attached fact sheet.

If you have questions or comments, please contact Tom Modica, Director of Government Affairs and Strategic Initiatives at (562) 570-5091.

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All Department Directors  
Tom Modica, Director of Government Affairs and Strategic Initiatives  
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# **GOVERNOR'S JANUARY BUDGET – FY 14**

JANUARY 2013

## **Introduction**

The Governor introduced his proposed FY 14 budget on January 10, 2014. This marks the first January budget announcement that has not included a deficit projection in recent years. After several years of budget cuts, voters approved Proposition 30 and 39 in November 2012. These ballot measures temporarily increase sales and income tax rates, as well as permanently close an out-of-state tax loophole to help California realize increased revenues.

## **Summary**

The State budget assumes California's General Fund (GF) will realize \$98.5 billion in revenues, while expending \$97.6 billion for GF costs in FY 14. While this projection shows a \$851 million surplus, it depends heavily on economic growth of at least 2.7% gross domestic product over the next five years. Additionally, economic growth is expected to produce higher personal income tax, sales and use tax and corporation tax receipts – California also recently increased the tax rate for all three categories.

Redevelopment continues to play a crucial role on the revenue side of the State budget. The Governor conceded eliminating Redevelopment will not produce \$3.2 billion for the State in FY 13, as was projected when the State Legislature adopted the FY 13 budget. Though revenue estimates have been lowered to \$2.1 billion for FY 13, the State is still relying on this source of funding to balance the budget. Revenue estimates for FY 14 have also been revised. In June 2012, state officials believed Redevelopment could contribute \$1.6 billion to the State budget in FY 14. These numbers have been reduced accordingly, and the Governor's January budget now estimates \$1.1 billion to the State from Redevelopment in FY 14.

Citing a balanced budget, the Governor indicates his Administration will focus on two main issues in the coming year: (1) Education funding; and (2) Medicare/Medi-Cal expansion, per federal health care reform requirements.

## **Long Beach Impacts**

The Governor's FY 14 budget does not include any major fiscal changes that directly impact local governments; however, there remain issues in the budget that are important to Long Beach.

### **Redevelopment**

The State concedes dissolving Redevelopment will produce lower than expected revenues. In June 2012, State officials believed the State's general fund would benefit from revenues totaling \$3.2 billion in FY 13. This target has been revised, but still stands at \$2.1 billion. The amount for FY 13 has yet to materialize entirely; however, Long Beach has been working closely with the State Department of Finance to transfer former Redevelopment assets, as prescribed in AB 1484 of 2012. According to AB 1484, after the transfers are complete, the State Department of Finance should issue a "notice of completion" to the City, at which time Long Beach may regain access to loans between the City and former redevelopment agency, existing bond revenues for specified projects, and former-redevelopment property.

### Enterprise Zones

The City of Long Beach participates in the State's Enterprise Zone program, which provides qualifying local businesses with state tax credits for hiring low-income, qualified employees in Targeted Employment Areas. Over 70 percent of the City is designated as an Enterprise Zone, making this program accessible to Long Beach residents seeking employment, as well as Long Beach businesses.

Several years ago, the Governor proposed to eliminate Enterprise Zones entirely. That proposal did not come to fruition, but Enterprise Zone reforms may become enacted in FY 14. The Governor's budget proposes reforms that are expected to save the State \$10 million in FY 13 and \$50 million in FY 14. Reforms will include:

- Limit retroactive vouchering by requiring all voucher applications to be made within one year of the date of hire;
- Require third party verification of employee residence within a Targeted Employment Area;
- Streamline the vouchering process for hiring veterans and recipients of public assistance; and
- Create stricter zone audit procedures and audit failure procedures.

The Budget also mentions additional reforms through legislation will be introduced during the 2013 State Legislative Session.

### Proposition 39

Voters approved closing an out-of-state corporation tax loophole by passing Proposition 39 in November 2012. This measure was described as a mechanism to fund public facility energy efficiency upgrades over the next five years, with revenues after five years aiding the State's general fund. Despite ballot language indicating revenues would be distributed for projects at schools, cities, counties and other public facilities, the Governor's Office has indicated a large majority, if not all, Proposition 39 revenues will be directed to energy efficiency projects at K-12 facilities. As directed by the Council, the City will work this year to secure funding opportunities for cities, but given today's announcement, it appears that will be a difficult effort.

### Cap and Trade

Revenues from cap and trade came in lower than expected. The California Air Resources Board (CARB) held the first of three 2012-13 auctions on November 14, 2012, resulting in \$55.8 million in proceeds to the state. The auction of allowances directly allocated to independently-operated electric utilities resulted in proceeds of \$233.3 million, which will be credited to customers. The other two auctions will occur on February 19, 2013 and May 16, 2013. In recognition of the State's initial experience with the first auction, the Budget only addresses the expenditure of auction proceeds of \$200 million in FY 13 and \$400 million in FY 14. These projections are merely based upon the first auction. Future auctions may or may not generate increased revenues, but as CARB continues to move forward with cap and trade, there will be more data on which to base future projections and these estimates may be revised.

### Gas Tax

The City receives approximately \$12.9 million in gas tax revenues through the State annually. These dollars are crucial to funding street light operations, street sweeping, and other street maintenance activities such as surfacing and striping. The Governor predicts funding for FY 14 will remain stable.

### Health and Human Services

The Governor's proposed budget for FY 14 does not include any major changes for health programs within the City. However, the Women, Infants and Children's (WIC) Supplemental Nutrition Program may see a small increase in funding to address state-wide caseload growth, for which the City may be eligible due to local assessments. Long Beach also operates a HIV/AIDS Prevention program. Changes in funding at the State level appear to maintain support to address access for local populations under treatment for HIV/AIDS in accessing life-saving medication.

Impacts associated with the federal healthcare reform have yet to be determined. The Governor indicates in his budget proposal that there are two potential ways forward. One method would expand Medicare/Medi-cal services at the State level, but take funding from County health programs to do so. The other method is to expend Medicare/Medi-cal services at the County level. Funding for this route has not been developed, though the Governor indicates State officials will be reviewing the Local Financing of 1991 Public Health Realignment structure as a potential framework; impacts or specific details not yet known.

### State Worker Furloughs

The Governor's \$97.7 billion budget plan does not extend the one-day-per-month furlough that is set to expire at the end of FY 13; nor does it contain funding for raises in new contracts.

### CalRecycle Reforms Forthcoming

The Governor will work leadership in the Legislature to introduce budget-related reforms at CalRecycle in the spring.

### Department of Parks and Recreation, Boating and Waterways Division

As a part of the previous year's budget, the Department of Boating and Waterways was eliminated and merged under the State's Department of Parks and Recreation. Effective July 1, 2013, Boating and Waterways will become a new division within the Parks Department. Seven Boating and Waterways staff positions will be eliminated for an annual structural savings of \$1.1 million.

### Library Assistance

Two years ago, State assistance to local libraries was completely eliminated. Funding was partially restored in FY 13, but was focused on literacy programs. In the proposed budget, this funding source was not affected.

### **Next Steps**

The Governor's next budget update will come in May. At that time, most of the revenues from Redevelopment should be accounted for. A clearer picture of income, property and sales tax revenues will also be available for a revised FY 14 State budget. Meanwhile, Legislators will introduce and hear proposals to implement Proposition 39, grant programs associated with Cap and Trade, as well as discuss Enterprise Zone reforms, and budget-related reforms at CalRecycle.

The City will continue to monitor these developments and provide updates as appropriate.