



Date: October 13, 2015
To: State Legislation Committee Members
From: Patrick H. West, City Manager *PHW*
Subject: **FY 16 State Budget – Long Beach Impacts**

The attached memorandum regarding the State's FY 16 Budget was previously transmitted to the Mayor and City Council. A report on this subject will be provided to the State Legislation Committee.

If you have questions or comments, please contact Diana Tang, Manager of Government Affairs at (562) 570-6506.



Date: July 10, 2015
To: Mayor and City Council Members
From: Patrick H. West, City Manager *T.M.W.*
Subject: FY 16 State Budget – Long Beach Impacts

Introduction

On June 24, 2015, Governor Brown signed the State's FY 16 budget agreement into law. This budget demonstrates a surplus and reflects the Governor's fiscal discipline. It includes \$117.4 billion in General Fund resources available and a framework for \$115.3 billion in expenditures, while adding \$1.9 billion to the State's Rainy Day Fund as required by Proposition 2.

Of primary importance to the City of Long Beach is AB 113. This is the redevelopment budget trailer bill that puts \$120 million in City of Long Beach revenues at risk. This single budget trailer bill was not adopted along with the main budget package, but is still being discussed. AB 113 is a high priority for the Governor and State Department of Finance, and we anticipate a version of this legislation will be enacted before the end of the 2015 State Legislative Session. Long Beach has been working to preserve the City's ability to submit for City/Agency loan repayments, but a final State legislative agreement is still pending.

Redevelopment Budget Trailer Bill

There are four issues that the City is pushing for in the redevelopment budget trailer bill:

1. *Definition of a loan.* This is the most crucial item. The definition of a loan determines the amount of loan principal that is owed to the City.
2. *Loan Agency Investment Fund (LAIF) rate application.* The interest rate and timing of its application determines the amount of interest that the DOF will recognize as having accrued over the course of the loan period.
3. *Courthouse demolition.* The City is working to secure funding to demolish the former Long Beach Courthouse property. The former Long Beach Courthouse was, at one time, a redevelopment agency property. However, since the approval of the Long Range Property Management Plan, the former Long Beach Courthouse is now City property and technically ineligible as an enforceable obligation of the successor agency. Because the parcel is crucial to the development of the Long Beach Civic Center project, it was important to transfer the land to the City.
4. *Oversight Board extension.* Long Beach is attempting to preserve the Long Beach Oversight Board's existence beyond July 1, 2017. We have already been successful at extending this deadline beyond the July 1, 2016 date that was originally in the Redevelopment Dissolution Act. The purpose for this request is so that the Long Beach successor agency may submit for approval of its financial transactions to the Long Beach Oversight Board rather than a single countywide oversight board.

City/Agency Loans – Legal definition of a “Loan Agreement”

Since cities have begun to submit official requests to the State Department of Finance (DOF) for the loan repayments, the DOF has chosen to recognize only loans where a cash transaction can easily be proven and where a repayment schedule was adopted at the time of the loan. Long Beach believes that this interpretation of the law is inaccurate, as our read of the Redevelopment Dissolution Act (AB 1484, 2011) allows cities to recuperate funds, whether the amounts were granted in cash or in services, from the redevelopment agency with interest being calculated from origination at the interest rate earned by funds deposited into the Local Agency Investment Fund.

The City of Watsonville filed a lawsuit challenging the DOF's interpretation of the Redevelopment Dissolution Act, which was worth \$4.6 million to Watsonville. In January 2015, the Sacramento Superior Courts ruled in Watsonville's favor, which is considered a "win" for cities. The City of Tustin has also filed a lawsuit against the DOF on the same basis of the Watsonville case. This DOF has appealed the Watsonville decision.

Historical Local Agency Investment Fund (LAIF) Rate vs. Proposed 3% rate

The DOF is proposing to calculate interest on outstanding balances on City/Agency loans at 3% beginning on the date the oversight board recognizes the loans to be an enforceable obligation. For Long Beach, if the definition of a loan, as described above, proves not to be a problem and 100 percent of the City/Agency loans are recognized as enforceable obligations, the application of DOF's 3% interest rate would result in the loss of all accumulated interest, approximately \$65 million.

The language in the original Redevelopment Dissolution Act applied the historical LAIF rate to the outstanding loan balances. City/Agency loans date back to 1972 with LAIF rates ranging up to 12% during that period. This method of calculation, if 100 percent of the City/Agency loans are recognized as enforceable obligations, would result in \$120 million in principal plus interest payments to the City over the course of the loan repayments.

The City of Glendale filed a lawsuit challenging the DOF interpretation of LAIF rate application, stating that loans should be repaid at the historical LAIF interest rate. This interest rate ranges from 12% to 0.2% and has a dramatic effect on the final dollar amount that should be repaid to cities. While the DOF believes the City of Glendale is owed slightly less than \$1 million, a Sacramento Superior Court judge ruled in favor of Glendale. The March 2015 ruling states that the historical interest rate applies, and City of Glendale is owed about \$32 million in interest payments by the State of California. This is considered a "win" for cities. The DOF has appealed the Glendale decision.

Impacts to Cities

A number of cities have filed lawsuits against the DOF with respect to redevelopment. Working with various cities, Long Beach has learned that even the City of San Diego has \$200 million in loans repayments that San Diego had anticipated it would receive; the DOF has denied 100% of San Diego's loan requests as enforceable obligations of its successor agency. San Diego is also preparing a lawsuit. A survey conducted by a statewide municipal finance organization shows the loss to cities statewide as result of AB 113 at more than \$872 million.

Affordable housing will also lose its only source of local funding if the DOF prevents the City from collecting any of the City/Agency loans for which Long Beach is owed. The Redevelopment Dissolution Act directs 20% of the City/Agency loan repayments towards affordable housing. Therefore, if Long Beach does not receive any loan repayments, then there will be zero local funding for affordable housing. This will put affordable housing projects in Long Beach at a competitive disadvantage for affordable housing grants, tax credits, or projects funding with bonds. Specifically, we will not have any local affordable housing dollars with which to match grant funds from the State's cap and trade Affordable Housing and Sustainable Communities Grant program, or any other affordable housing program.

Challenges

The redevelopment budget trailer bill has been one of the most controversial FY 16 Budget trailer bills, but the Governor and the DOF have made it a priority to pass legislation that they assert will "streamline" the dissolution process. While some legislators have been sympathetic to cities that will be adversely affected by AB 113, not all legislators and cities are in the same position. In an effort to grow support for the bill, the Governor has added language that allow cities that have issued bonds in 2011 to utilize a portion of those proceeds. There is also language to enable a pension tax fix that some cities have been pursuing for years. These and a few other compromises provide zero added benefit to Long Beach. Rather, it appears there may be growing support for AB 113 because of the additions.

Next Steps

The City has developed compromise language that we will request if AB 113 is brought up for a vote. The compromise language focuses on preserving the City/Agency loan principal, and seeks to secure funds for the former Long Beach Courthouse demolition.

Non-Redevelopment Budget Impacts to Long Beach

Aside from the redevelopment budget trailer bill, other State budget items affecting Long Beach were enacted. A brief summary of each is below:

Law Enforcement

The budget includes \$20M for local law enforcement grants to City Police Departments. This is a 50 percent reduction from the amount that has been provided in the last three years. The FY 16 funds will only be given to city law enforcement agencies who agree to provide data on the number of use-of-force incidents that result in hospitalization or death. The decrease in funding is also attributable to the pending end of Proposition 30. Proposition 30 was enacted in 2012; the sales tax increase will sunset December 31, 2016 and the income tax provisions sunset January 1, 2018. As a part of the Governor's campaign for Proposition 30, he promised \$20 million to city law enforcement agencies for two years. FY 16 represents the fourth year of funding, while the amount provided in the first three years surpassed the expected dollar amount. It should be expected that this grant program will face funding challenges in subsequent budget years.

Oil Operations

The FY 16 budget requires the State Department of Gas and Geothermal Resources (DOGGR) to consult with the State Water Resources Control Board (SWRCB) and regional water quality boards with respect to underground injection control.

Recycling

The Department of Toxic Substances Control will begin regulating and enforcing actions related to metal recycling facilities.

Drought Measures

The budget authorizes a number of drought related items, including providing the State Water Resources Control Board with the authority to order local water agencies that consistently fail to provide an adequate supply of safe drinking water to consolidate with a neighboring jurisdiction that is able to provide safe drinking water.

General State Budget Items

The FY 16 State budget provides funding authorization for a number of issues beyond the scope of local government. A few items that may have tangible benefits to the Long Beach community include:

Changes affecting California's Undocumented Immigrants

In May 2016, the State will begin extending Medi-Cal coverage to about 170,000 undocumented immigrant children under age 19. The expansion is projected to cost \$40 million in FY 14, and about \$132 million annually following implementation.

Separately, the budget creates a new position in the Governor's Office for new immigrants. The person filling this position will be responsible for developing a report on programs and services that serve immigrants. This person will also monitor the implementation of statewide laws and regulations that serve immigrants.

Earned Income Tax Credit

The FY 16 budget includes \$380 million for the State's first California Earned Income Tax Credit (EITC), which focuses on households with incomes less than \$6,580 if there are no dependents and up to \$13,870 if there are three or more dependents.

Amnesty from State Fines and Bail

The FY 16 budget creates a new amnesty program that allows individuals with past due court-ordered debt that was due prior to January 1, 2013 to meet their debt obligations by paying 50% of the total amount due. Only debt relating to traffic infractions and certain misdemeanors are eligible to be satisfied through this program.

Education

The Budget provides \$265 million to fund 7,000 additional preschool slots and 6,800 child care slots, plus a rate increase for all providers. For higher education, there is \$217 million in new ongoing funding for the California State University system, and \$120 million in new ongoing funding for the University of California system.

If you have questions or comments, please contact Diana Tang, Manager of Government Affairs at (562) 570-6506.

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