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Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Betsy Shotwell
Roxanne Miller

SUBJECT: **Intergovernmental Relations
Report on State Issues
Week of May 11, 2009**

DATE: May 12, 2009

Approved

Christine S. Shippy

Date

5/13/09

INFORMATION

STATE BUDGET UPDATE

Governor Schwarzenegger has been advocating support for Propositions 1A through 1F and yesterday announced the State budget deficit has grown to as large as \$21.3 billion through June 2010 due to the severity and worsening economic decline. If the voters approve Propositions 1C, (securitization of lottery funds), 1D and 1E (temporary borrowing of funds from early childhood and mental health programs), on the May 19 ballot, the projected \$21.3 billion deficit would be cut by \$6 billion. The latest deficit projection will require the Governor and legislators to negotiate deeper spending cuts and consider "borrowing" and new fees or taxes. **In addition, the Legislative Analyst (LAO) is estimating the State also faces a projected \$23 billion "cash crisis" through June 2010.**

The Governor also announced yesterday that he will now issue his Budget May Revise on Thursday, May 14. The May Revise had been scheduled for release on May 28. The Governor wants the public to see what the State Budget problem is and what will happen if the voters don't approve the measures on the ballot. According to Department of Finance, the May Revision is expected to provide two scenarios: one that assumes successful passage of Propositions 1A through 1E on the May 19, Special Election Ballot; and the other will provide additional proposals to address the budget gap in the event the ballot measures fail.

The May 19 Special Election Ballot measures are not a comprehensive budget solution but a necessary compromise to avoid deeper cuts in all State funded programs. Long term reforms will still be required to balance the State budget as the State budget deficit continues to grow.

Proposition 1A that caps spending, establishes a "rainy" day fund and extends the sales tax, vehicle license fees and income tax increases used to pass the current FY 2009-10 budget must be passed by the voters to extend the temporary tax increases and provide \$16 billion in

additional revenues from 2010-11 through 2012-13. Propositions 1A and 1B must both pass for the State to restore \$9.3 billion in education funding in the coming decade

On May 5, the Governor's office and Department of Finance advised local government representatives they were considering "borrowing" local property tax revenues. Finance staff indicated they will be presenting budget options in the May Revision. Recognizing the size of ongoing budget deficits and the past difficulty in reaching bi-partisan agreements for spending cuts or increasing revenues with taxes (requiring a 2/3 vote) or with fees, "all options are expected to be on the table."

The Department of Finance proposed budget options, if the propositions on the May 19 ballot fail, include borrowing 8% of city, county and special district property tax revenues, estimated at \$2.006 billion, to help close the FY 2009-10 State budget deficit. The estimated impact to the City would be approximately \$20 million.

Under the provisions of voter approved Proposition 1A (2004):

- The Governor must issue a proclamation declaring a "severe fiscal hardship" for the purpose of invoking the suspension provisions of Proposition 1A (2004).
- The Legislature must enact an urgency statute by a 2/3 vote. The funds borrowed from local governments plus interest must be repaid in full within three years.
- The Legislature may not enact a suspension more than twice in any ten-year period and can only do so if any previous borrowing has been repaid for ten years.
- "Local Agencies" as used in Proposition 1A is defined as cities, counties and special districts. It does not include redevelopment agencies or schools.

Our efforts to communicate with the Department of Finance, the Governor's Office, our legislators and legislative leadership regarding the City's strong opposition to any proposals to borrow from local government must continue. Initiatives are being coordinated locally and statewide to identify key stakeholders to oppose proposals that seek to take local revenues to address the State's budget deficit.

Status of Proposition 1B Local Streets and Roads Infrastructure Funding. Under the good news category, San Jose's remaining \$14.6 million of the City's \$30 million share of Proposition 1B Local Streets and Roads Infrastructure funds is here or on its way. The City received a check last week for the City's requested \$8.4 million award from the State Controller. The Department of Finance has also confirmed the City's final request for funding has been approved. The State Controller will be dispersing our final award of \$6.1 million later this month or in early in June. Our office is continuing to work with City departments and State

Honorable Mayor and City Council

Subject: IGR Report on State Issues, Week of May 11, 2009

May 12, 2009

Page 3 of 3

Treasurer, State Controller and Department of Finance to secure release of the City's other infrastructure funding priorities.



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