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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 18, 2009**

DATE: May 19, 2009

Approved

Christine J. Shroyer

Date

5/19/09

INFORMATION

STATE BUDGET UPDATE

The Governor's FY 2009-10 May Revision proposal presented on May 14 identifies a \$15.4 billion budget deficit in 2009-10 that would grow to \$21.3 billion if the voters' fail to approve Propositions 1A through 1E in today's Special Election ballot. Under the May Revision, the \$15.4 billion deficit would be addressed by a combination of \$6 billion in borrowing, \$5.5 billion in program savings, and \$750 million in cuts requiring Federal Waivers, \$1 billion in revenue accelerations, fees, and \$150 million in fund shifts. **The Governor's May Revision does not propose to take redevelopment funds to close the State's budget deficit.**

The 2009-10 May Revision also proposes a \$6 billion Contingency Plan if the measures on the May 19 Special Election ballot fail. The Contingency Plan includes borrowing \$1.982 billion of local property tax revenues from local agencies and proposes to create a joint powers authority to allow local agencies to borrow against the state repayment as a group.

Under the Contingency Plan proposal, as allowed under Proposition 1A (2004), the State would borrow 8 percent of local property tax revenues received by cities, counties and special districts in 2008-09. The Governor's proposal does not include a formula as to how the loss of funds under the borrowing would be apportioned among local agencies. The revenues borrowed must be repaid with interest within the next three years.

An estimate of the impacts prepared by the League of California Cities for each city and county of the Governor's proposal to borrow under Proposition 1A indicates that **San Jose's share of the 8 percent borrowing would be \$ 19.6 million. This number**


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reflects an 8 percent reduction of the City's share of property tax in the county. To calculate a city's share, the estimate includes: Secured and Unsecured Property Tax, Property Tax in Lieu of VLF, Sales Tax Triple Flip for a Total Estimate of 2008-09 Local Property Taxes to calculate the City's share of the proposed 8 percent borrowing.



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