



DISTRIBUTION DATE: 6/15/12

MEMORANDUM

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Sabrina Landreth

SUBJECT: State Budget

DATE: June 15, 2012

City Administrator

Date

Approval

/s/ **Deanna J. Santana**

6/15/12

INFORMATION

The purpose of this Information Memorandum is to provide an update on the State Budget and its potential impact on the City of Oakland's budget, as well as provide a brief summary of the most recent Oversight Board hearing that occurred on June 4.

On Friday afternoon, after relatively short Floor Sessions, both Houses of the Legislature approved the main Budget Bill, in compliance with Proposition 25, which requires a budget to be sent to the Governor by June 15. They also passed six other budget-related trailer bills, out of approximately 29 in total.

Many of the remaining trailer bills are still being negotiated with the Governor, but are expected to be passed by the end of the month. Governor Brown has not clarified whether he will support the bills approved today, but State Treasurer Bill Lockyer released a statement that the budget is "financeable" as passed by the Legislature. With the exception of the main budget bill, the other bills will not likely be sent to the Governor for consideration until all of the remaining trailer bills have been approved.

There has still not been any additional information released regarding the language of the trailer bill that addresses redevelopment issues. This remains a very active negotiation between the Legislature and the Governor's Office. In addition, the City has received no further or specific communication from the State Controller's Office related to the generic clawback order of April 20, 2012.

BACKGROUND

In January, the FY 2012-13 Governor's Budget projected that the state needed to address a budget problem of \$9.2 billion in order to balance the FY 2012-13 General Fund budget. Spring tax collections showed that the estimates included in the Governor's budget were too optimistic

about tax revenues, and required state expenditures on schools under current law and tax policies also are estimated to be higher. In total, the administration's estimate of the size of the budget problem increased by \$6.5 billion between January and May to now total \$15.7 billion.

As part of his May Revision, the Governor has proposed an overall budget architecture for FY 2012-13 that relies on state revenues that would be raised only if approved by voters in November 2012. The November ballot will contain revised temporary tax initiative with lower sales and use tax (SUT) rates and higher personal income tax (PIT) rates on higher-income Californians.

The California Constitution requires that the annual state budget be balanced, and this uncertainty requires that the Legislature adopt contingency plans for addressing the \$8.5 billion in revenue that would not be raised if the revenues are not approved by the voters. The Governor has proposed "trigger reductions" effective January 1, 2013 that would be the contingency plan if the ballot measures are not approved.

The Figure below shows the Governor's updated trigger cut proposal to take effect if voters reject the proposed tax measure in November.

2012-13 General Fund Benefit (In Millions)

Proposition 98 funding for schools and community colleges	\$5,494
University of California	250
California State University	250
Department of Developmental Services	50
Local water safety patrol grants	11
CalFire	10
Department of Water Resources flood control programs	7
Department of Fish and Game	4
Department of Parks and Recreation	2
Department of Justice law enforcement programs	1
Total	\$6,077

In addition, the May Revision assumes K-14 districts will receive a total of \$3.3 billion in the current and budget year from the dissolution of Redevelopment Agencies (RDA). This amount includes (1) \$1.8 billion in RDA property tax revenues (down from \$2.1 billion assumed in the January budget) and (2) \$1.5 billion in RDA cash and other liquid assets (a new budget solution in the May Revision).

For the City of Oakland, this additional transfer of unencumbered Low/Mod Funds is estimated to equate to about **\$7-15 million**.

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OVERSIGHT BOARD

The City of Oakland Oversight Board held its most recent meeting on June 4 (agenda attached). At that meeting, staff provided a legislative update and a copy of the Department of Finance approval letter for the Recognized Obligation Payment Schedule (ROPS). The remainder of the meeting was dedicated to discussion of the nine proposals for outside legal counsel, and the Board is expected to make a decision on their legal representation at their next meeting on June 18.

The Administration will continue to provide regular updates on the status of the State Budget and its potential impact on the City, as well as any actions and discussions by the Oversight Board.

Respectfully submitted,

/s/

SABRINA LANDRETH

Deputy City Administrator/Budget Director

For questions, please contact Sabrina Landreth at (510) 238-4936.

Attachment

OAKLAND OVERSIGHT BOARD

Elsa Ortiz, AC Transit Board President (special district appointee)

(Alternate: Christian Peeples)

Superintendent Tony Smith, OUSD (education appointee)

(Alternate: David Kakishiba)

Supervisor Keith Carson, Alameda County (County appointee)

Mayor Jean Quan, City of Oakland (City appointee)

(Alternate: Anne Campbell-Washington)

Jeffrey Levin, City of Oakland/IFPTE Local 21 (City labor appointee)

(Alternate: Christia Mulvey)

Vice Chancellor Ronald Gerhard, Peralta Community College

(Community college appointee)

(Alternate: Susan Rinne)

Frank Tucker, CEO, Tucker Technology Inc.

(County member of the public appointee)

(Alternate: Derrick C. Bulls)

OAKLAND CITY HALL

Sgt. Ervin Romans; Hearing Room #2

1 Frank H. Ogawa Plaza, 1st Floor

Oakland, CA 94612

AGENDA

MONDAY, June 4, 2012 • 5:00 p.m.

Staff reports and other agenda-related material are posted on the Oversight Board's website at <http://www2.oaklandnet.com/Government/o/CityAdministration/d/NeighborhoodInvestment/a/OversightBoard/index.htm>. These documents may also be viewed at the Office of the City Clerk, City Hall, One Frank Ogawa Plaza, 1st and 2nd floors, Oakland, California, from 8:30 AM to 5:00 PM.

1. Call to Order/Roll Call
2. Approval of minutes for May 21, 2012 meeting
3. Legislative Update from Townsend Public Affairs
 - a. May 24, 2012 email
 - b. May 25, 2012 email
 - c. June 1, 2012 email (pending)
4. Department of Finance Approval of the ROPS for January-June 2012 and July-December 2012
5. Retention of outside legal counsel for the Oakland Oversight Board
6. Open Forum
7. Adjournment