



# MEMORANDUM

**TO:** HONORABLE MAYOR &  
CITY COUNCIL

**FROM:** Donna Hom  
Budget Director

**SUBJECT:** Federal and State Budgetary Actions  
Standing Report

**DATE:** June 10, 2013

City Administrator

Date

Approval /s/ Scott P. Johnson

**6/10/13**

## INFORMATION

During the May 14, 2013 and May 28, 2013 Finance and Management Committee, the Assistant City Administrator verbally reported the latest known Federal and State budgetary actions that may have financial implications to the City of Oakland. This memorandum memorialized the presentation as well as provides additional detail that has recently become available.

### Federal:

#### Sequestration

Federal government allows each agency to have flexibility to meet the target budget reduction from Sequestration. The measures range from furloughs (Internal Revenue Service) to operational cost cuts (Information Technology). We had previously provided information in April 2013 on fiscal impacts derived from sequestration due to reduced federal funding available to our Head Start and Housing programs. Below is additional details related to the impacts of our Head Start Program.

#### Head Start

The impact from sequestration to the City of Oakland Head Start program is approximately \$954,467, which will take effect on September 1, 2013. Currently, the City matches approximately \$250,000 to the Head Start grant of \$18,352,486. The City also supports the program through an annual waiver of the City's Central Service costs in the amount of approximately \$2 million. The Central Service Costs include indirect support to the program from internal services such as Controller's office, payroll, human resources, legal, etc.

Currently, the program serves 1,778 children (slots). As the result of sequestration and service cost increases, the proposed Policy Budget for FY 2013-15 assumes the closure of the San Antonio and Eastmont Centers in which 102 slots of enrollment reduction would occur. However, the Mayor and City Administrator's FY 2013-15 Proposed Policy Budget proposed to

keep the Eastmont Center open, which will save 34 of slots. If the proposal is approved by the City Council, the service level will be 1,710 slots, resulting in a decrease of 68 slots.

Of note, there will not be any impacts to children who are currently registered with the program. The service impact lies on the reduction of future enrollment.

**State:**

In April, the State collected more income tax than expected; however, it is projected that the extra revenue will be allocated to community college and k-12 in accordance to Proposition 98.

The Governor's Office has released the May Revision to the Governor's FY 2013-14 Proposed Budget. The highlights of the revised proposal are listed below:

Overview:

- It reflects the continuation of the state's economic and budget recovery
- The national economic outlook has dimmed since the Governor's Budget and recent federal actions have slowed the pace of the state's economic growth
- In the past four months, the state has experienced a multibillion dollar increase in current-year cash receipts. Yet, it should be noted that most, if not all of this increase will be allocated to schools as well as from the implementation of the Local Control Funding Formula.

Revenue:

- Personal income growth was adjusted downward from a 4.3% growth rate to 2.2% due to the federal government's action on not extending the 2% payroll tax reduction.
- Personal Income Tax is adjusted downwards by 4.8%; Tobacco tax downward by 2.2%; Motor Vehicle Fee downward by 20.7%; "others" downwards by 42.4%
- Sales Tax is adjusted upward by 13.6%; Corporate Tax upward by 13.3%, Insurance Tax upward by 2%; and Liquor Tax upward by 2.2%

Expenditures:

- \$2.9 billion expenditure upward adjustment for K-12 due to Prop. 98 formula
- \$467 million expenditure upward adjustment for Medi-Cal costs due to federal and court actions
- The state improved fiscal condition reduces the cost of borrowing by \$484 million.
- Expenditure upward adjustment to the CalWORKs for job training program
- \$72 million additional appropriation to counties for assisting the state in reducing its prison population

