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2009 MAY 14 PM 8:41

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Office of the City Administrator
Dan Lindheim
City Administrator

(510) 238-3301

May 26, 2009

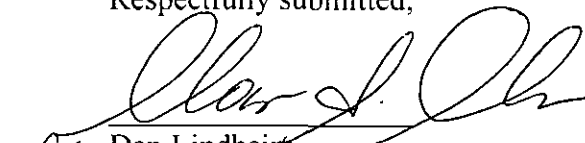
Concurrent Redevelopment Agency and City Council Committee on
Finance and Management
Oakland City Council
Oakland, California

Chairperson Quan and Members of the Committee:

RE: Scheduling Reports regarding the Status of the State's Budget Development and its Potential Impact on the City of Oakland's Proposed Budget for FY 2009-11

The State of California is facing a budget deficit of over \$15 billion in FY 2009-10. State officials and the legislature are in the process of devising solutions to the State's anticipated shortfall. Staff reports providing updates on the State's budget developments and their potential impact on the City's budget will be added to the 10-day or supplemental agenda packets as information becomes available. These standing items will allow the City Administrator to provide updates to the Council and the public and to facilitate timely action by the City Council.

Respectfully submitted,


for Dan Lindheim
City Administrator

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F&M Committee
2009

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AGENDA REPORT

2009 MAY 14 PM 8:41

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Budget Office
DATE: May 26, 2009

RE: **Status Report from the City Administrator on the State Budget and Potential Impacts on the City's Proposed Budget for FY 2009 - 11**

SUMMARY

This report provides the following information related to State budget deliberations and actions that may affect the City of Oakland:

1. Court ruling that will reverse the State's plan to raid redevelopment agency funds to pay for the State's obligations.
2. State proposal to help close its budget deficit by borrowing 8 percent of local government's property taxes.

FISCAL IMPACT

This is an informational report; as such there are no direct fiscal impacts. Nonetheless, state budgetary deliberations and actions summarized above and detailed below may have the following effect:

1. Return of \$8.5 million of tax increment revenue to the Oakland Redevelopment Agency that had been set aside for the ERAF (Education Revenue Augmentation Fund) payment.
2. Diversion of \$11.8 million of the City's property tax revenues to the State, resulting in a loss of said revenues in FY 2009-10.

These items are discussed below.

DISCUSSION

Superior Court Ruling Prevents Transfer of \$350 million from Redevelopment Agencies

A recent Sacramento Superior Court ruling on the lawsuit filed by the California Redevelopment Association (CRA) ruled against the State of California's attempt to get redevelopment agencies statewide to transfer \$350 million of its ERAF payments to the State. AB 1389, which was approved in September 2008 as part of the FY 2008-09 budget package, authorized a one-time taking of \$350 million from redevelopment agencies. The lawsuit claimed that this raid of redevelopment funds violated the State Constitution regarding how redevelopment funds are to be used. The lawsuit cited Article XVI, Section 16 of the California Constitution, which states that redevelopment funds can only be used to finance redevelopment project activities. The judge agreed that the State's use of this fund to pay for its obligations violates that article of the State Constitution. The State may choose to appeal this decision and continue the legal process on this matter.

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State Proposal to Borrow Local Government Property Tax Revenues


On February 19, 2009, state legislative leaders and Governor Schwarzenegger approved the basic framework of a \$41 billion budget package. This budget was designed to close a projected \$42 billion deficit by relying on approximately \$12.8 billion in temporary tax revenues, \$15 billion in reduced expenditures, and \$11.4 billion in borrowing. The package also requires voters to consider several measures at the May special election.

Recent public opinion polls, however, indicate that this package of budget-balancing propositions may fail at the ballot box. As a result, Governor Schwarzenegger has proposed borrowing up to 8 percent of local government's property tax revenues to fill the State's anticipated budget gap under Proposition 1A. The State would have three years to repay principal and interest to local governments. If approved by the State legislature, this measure will provide \$2 billion to the State budget in FY 2009-10, but would mean that the City of Oakland would lose up to \$11.8 million next fiscal year, thereby re-opening the budget gap that had been bridged in the FY 2009-11 Mayor's Proposed Policy Budget. City Administration vigorously opposes this proposal to balance the State budget at the expense of local governments.

ACTION REQUESTED OF THE CITY COUNCIL

Accept this informational report.

Respectfully submitted,


CHERYL L. TAYLOR
Budget Director

Prepared by:

Nila Wong
Budget Office

APPROVED FOR FORWARDING TO THE
FINANCE & MANAGEMENT COMMITTEE


Office of the City Administrator

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