
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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City Council Discussion of the FY 2009 Proposed Budget

The Mayor's Office issued the "May Revision to the Fiscal Year 2009 Proposed Budget" today, Friday, May 16, 2008. The May Revise outlines additional adjustments to the Proposed Budget, including revenue revisions and expenditure changes, based on new information received since the budget was published.

While we have had only a short time to review the May Revise, we are providing the attached summary of potential resources, previously identified and discussed with the Council, that have been utilized to rebalance the budget in light of proposed revenue reductions, as background for your budget discussion on Monday. \$9.2 million of the resource options, previously identified for Council consideration, have now been utilized to rebalance the budget.

On May 14, 2008, the Governor issued his May Revise to the State Budget, which continues to have limited impacts to local revenues. Funding for booking fee reimbursements and Citizens Option for Public Safety (COPS) have been reduced by 10 percent, consistent with the Governor's across-the-board cuts to State agencies. However, the Governor's plan does not borrow local tax revenues through Proposition 1A, and continues to provide full Proposition 42 transportation funding. Furthermore, none of the proposals made by the State's Legislative Analyst have been included, which had the potential to significantly impact City revenues.

Despite the optimistic outlook, the State Budget still presents a serious risk to City revenues. The Governor's plan to balance the budget relies on securitizing future lottery earnings or a temporary sales tax increase, if the lottery securitization is unsuccessful. However, if the Legislature does not support the Governor's plan, other means of

balancing the budget will need to be identified, which may include the transferring or borrowing of local revenues. These developments are likely to materialize after the City's FY 2009 Budget has been adopted, and contingencies will need to be developed should they occur. As stated in a letter from the League of California Cities, "city officials should remain on alert and ready to respond quickly to budget-related action alerts."

We will continue to review and analyze the May Revise and monitor the State's budget situation. We will incorporate any recommended changes into our final report to be issued on Friday, May 30, 2008. Following the release of our report, the Budget and Finance Subcommittee will consider final changes to the FY 2009 Budget on Wednesday, June 4th with Council consideration of final changes to the budget to be made on Monday, June 9th.

[SIGNED]

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Attachment