




## OFFICE OF MAYOR JERRY SANDERS

DATE: July 2, 2009

TO: Council President Ben Hueso & Honorable Members of the City Council

FROM: Mayor Jerry Sanders 

SUBJECT: State Budget Update

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Yesterday, the state began its new 2009-10 fiscal year without having solved the budget crisis. Over the past several weeks the Legislature and the Governor have been deadlocked over how to deal with the \$24 billion deficit. While the 2009-10 Budget Act was already enacted in February, the deteriorating economy and ballooning state costs created the \$24 billion deficit in the combination of the remainder of the 2008-09 fiscal year and 2009-10.

Three different alternate scenarios have been proposed in the last week:

- \$24 Billion Solution with Cuts and Tax Increases (2/3rds Vote)
- \$24 Billion Solution with Cuts and Tax Increases (Majority Vote)
- \$5 Billion "First Step" Solution with Education and Redevelopment Cuts (2/3rds Vote)

The Governor reiterated his stance daily that he will only sign a budget revision that addresses the entire \$24 billion problem and does not raise taxes. Late in the weekend, the Governor added a list of reforms to his demands for a complete budget package. They included reforms to the state's health and human services programs and to the state's pension system. None of the three scenarios contemplated by the Legislature met the Governor's tests and, in fact, he vetoed SB3X 16 and SB3X 17 which would have implemented the majority vote tax increase budget plan.

### **Local Government Funding**

The Governor proposed raiding \$986 million in 2009-10 and \$750 million in 2010-11 in Highway Users Tax Account (HUTA) funds which pay for city and county streets and road maintenance. Additionally he proposed to borrow local government property taxes in accordance with Proposition 1A's constitutional provisions. The proposals debated by the Legislature included the HUTA raid but did not include the Prop 1A borrowing scheme. The City of San Diego stands to lose up to \$23 million due to the HUTA raid for 2009-10 and \$36 million due to Proposition 1A borrowing if they both take place. The language proposed by the Administration attempted but did not appropriately structure the Prop 1A borrowing.

### **Where We State Currently**

The Legislature put forth the third scenario which would have provided what the Legislature called a “down payment” on solving the problem – about \$5 billion in education cuts in the 2008-09 budget year and restructuring the raid on redevelopment funds. Because the Legislature had already adopted a 2009-10 budget in February, Proposition 98 automatically recalculates the base year amounts on July 1st based on the prior year’s allocation. In order for the state to realize the savings attributable from these bills, they had to act by 11:59pm, June 30, 2009. The Governor vowed to veto the three bills in this partial-solution package and therefore, they did not receive the requisite 2/3rd vote of the Senate to pass the bills (the Assembly had already passed the bills with near unanimous support last week). The Governor implored Senate Republicans to vote no on the three bills. As a result of not passing those bills, \$2-3 billion in savings in the 2009-10 year and up to \$8 billion in the out years are not available to solve the problem.

The Governor has announced that the new deficit is \$26.3 billion (as a result of the above-mentioned savings not realized). He issued a proclamation declaring a fiscal state of emergency and reinstituted the furlough program for all non-essential state employees. The Executive Order increases the number of furloughs per month from two to three and rescinds the “floating” nature of the furloughs so that on the first three Fridays of every month, all non-essential state offices will close.

With no budget solution in hand, state Controller Chiang has declared that he will begin issuing registered warrants – also known as IOUs – to taxpayers, vendors, local governments and state workers beginning today. Additionally, he said that the state runs out of cash in the last week of July. He said, “The State’s \$2.8 billion cash shortage in July grows to \$6.5 billion in September, and after that we see a double-digit freefall.”

The City has made major reforms and accomplished the difficult task of balancing its budget. I expect Sacramento to also make the necessary reforms and I will fight to ensure that stealing local government revenues critical for the services our citizens expect is not part of those reforms.

cc: City Attorney Jan Goldsmith  
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