



July 24, 2009

Legislature Passes Budget Package in Marathon Session; HUTA and RDA Securitization Proposals Left Out

After a marathon night of arm twisting in the Senate and much cajoling in the Assembly, the Legislature has approved a 27-bill budget package that revises the 2009–10 spending plan enacted in February. Notably, the budget does not include several of the major elements negotiated among legislative leadership and the Governor in Big Five meetings, leaving the state's fiscal position unclear.

The Legislature was tasked with passing a package of bills to close California's more than \$26 billion budget gap, but several of the proposals hit rough waters in the Assembly and were shelved: the proposed \$1.7 billion Highway Users Tax Act take-turned-loan (HUTA) (ABX4 24 and 30), the redevelopment extension/securitization proposal (ABX4 27), and the \$100 million Tranquillon Ridge oil drilling project (ABX4 23).

Both houses saved the most contentious issues until the end, which included the RDA proposals, the HUTA take/borrow/repayment, Proposition 1A suspension and repayment, and the offshore oil drilling measure. In order to gain approval of these controversial measures, the Senate altered a number of trailer bills, including transforming the HUTA take into a 10-year loan. However, the Assembly placed both HUTA bills on the inactive file and voted down the Tranquillon Ridge project.

The second redevelopment bill with the securitization language also posed problems for the Legislature. The Senate had modified the RDA proposal (ABX4 26 and ABX4 27) to make the RDA take a majority vote bill and to place the \$1.7 billion RDA take in the RDA extension/securitization bill (i.e. if the City of Industry proposal worked, the \$1.7 billion RDA take would not occur). The Assembly passed ABX4 26 on a majority vote, as did the Senate, but the Assembly did not take up ABX4 27 before adjourning. It appears that litigation against the state on both the HUTA and RDA issues is not necessary.

The Senate and Assembly have adjourned until August 17 for their summer recess, and the pared-down spending package now goes to the Governor's desk. The Governor has indicated that he intends to sign the budget delivered to his desk, stating that it "meets each and every one of [his] criteria." The Assembly's rejection of the HUTA, RDA, and oil drilling proposals create an over \$1 billion hole in the budget package. The Governor indicated that he will be making line item vetoes to build a "prudent reserve."

And while members are out of town for three weeks, we anticipate a busy August, as work begins to clean up and honor many of the handshake deals that occurred over the last 48 hours. Among the expected key policy work planned for August includes legislation to address policy changes needed to achieve \$1.2 billion in unallocated cuts to the state corrections agency. Counties are counting on additional work to fine-tune Proposition 1A securitization language to ensure that local entities have solid protections that enable

borrowing. The state will also have to contend with possible lawsuits and the fact that the Controller said yesterday that he is still not certain that the state has enough cash on hand to discontinue issuing IOUs (more below).

Complicating things further is the fact that, even at this hour, trailer bill language remains unavailable on some of the measures acted on by the Legislature. Some of the trailer bill language can be found on the Senate Republican Caucus Web site, which can be accessed [here](#). A complete list of bills is provided below, but until the language of each is in print, only the drafters know what the full scope of provisions contained in the 27-bill package. We anticipate issuing a complete *Budget Action Bulletin* early next week once more details are available and language can be analyzed.

Elements of the budget package as we know it to include:

Williamson Act. Program slated for a 20 percent reduction this fiscal year (ABX4 1). Final fund numbers are still in flux due to decisions as to how to score state savings. CSAC will continue to seek clarity on the exact funding amount for 2009-10.

IHSS Fraud. All of the Governor's costly IHSS fraud prevention measures made it through the night (ABX4 19), including fingerprinting for IHSS providers and recipients and background checks for providers.

Privatizing Eligibility. The Governor's ill-conceived proposal to privatize eligibility functions for the CalWORKs, Medi-Cal and Food Stamps programs (ABX4 7) was passed by both houses, but contains language requiring a stakeholder process and legislative approval before procurement.

CalWORKs. The budget package includes wholesale changes to the sanctions policy, including large grant reductions; mandatory six-month self-sufficiency reviews; and permanent elimination of COLAs for grants (ABX4 8). The single allocation is also reduced by \$375 million (ABX4 4).

Public Safety: DOJ Cuts Out; Corrections Decisions Deferred. The public safety/judiciary trailer bill (ABX4 13) rejects both of the following (1) a proposal to charge state and local agencies a fee for the use of state forensic lab services; and (2) a \$20 million reduction to the Bureau of Narcotics Enforcement. The revised spending plan also imposes a \$1.2 billion unallocated reduction to the Department of Corrections and Rehabilitation, with the Legislature putting off until August more detailed policy discussions as to how to direct the department to achieve a cut of that size. (For a copy of the Administration's current proposal to save \$1.2 billion, please contact [Elizabeth Howard](#).)

How does passage of the budget revisions impact IOUs?

State Controller John Chiang said yesterday that even with adoption of the budget package, he cannot guarantee that he will be able to stop issuing IOUs. Additionally, the Controller does not know how the state's cash flow situation will shape up in October, when the IOUs that have already been issued can be redeemed. There is a possibility that the state will not be able to repay the IOUs when they can be redeemed on October 2.

Immediately after passage of the budget, the Controller's Office, State Treasurer and Department of Finance will be assessing cash flow projections. As was the case in February, it may take a couple of weeks to complete this analysis. In the meantime, the Controller will continue issuing IOUs until the state has sufficient cash on hand to resume check writing.

Thanks to county official for your strong advocacy over the last few days. It really made the difference in this budget. We are so appreciative of your commitment to your communities and to all Californians.

Final Budget Trailer Bill Package

BILL NO.	4TH EXTRAORDINARY SESSION BUDGET MEASURES	Vote Threshold
AB X4 1	Revisions to the 2009-10 Budget Act ("Budget Bill, Jr.")	2/3
AB X4 2	Education #1: Omnibus	2/3
AB X4 3	Education #2: 2008-09 Reversions, Certification, Maintenance Factor	2/3
AB X4 4	Human Services omnibus	2/3
AB X4 5	Health omnibus	2/3
AB X4 6	Medi-Cal Restructuring and Managed Care	2/3
AB X4 7	Centralized Eligibility for Public Assistance Programs	Majority
AB X4 8	CalWORKs Reforms and COLA Suspensions	Majority
AB X4 9	Developmental Disabilities	2/3
AB X4 10	Transportation omnibus	2/3
AB X4 11	Resources omnibus	2/3
AB X4 12	General Government omnibus	2/3
AB X4 13	Public Safety / Judicial omnibus	2/3
AB X4 14	Proposition 1A: Suspension	2/3
AB X4 15	Proposition 1A: Payback	2/3
AB X4 16	Cash Management and Cash Deferrals	2/3
AB X4 17	Revenues #1: Omnibus	Majority
AB X4 18	Revenues #2: Tax Enforcement	Majority
AB X4 19	IHSS Reforms	Majority
AB X4 20	Consolidation and elimination of boards	2/3
AB X4 21	Procurement Reform	2/3
AB X4 22	Asset Management	2/3
AB X4 25	Treasurer's Office Cash Management	2/3
AB X4 26	RDA Shift (\$1.7 billion)	Majority
REGULAR SESSION MEASURES		
SB 90	Supplemental Appropriations	2/3
SB 63	Integrated Waste Management Board elimination	Majority
AB 1555	Broadband Access	2/3

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