



July 13, 2009

Budget Impasse Starts to Thaw

What's Happening Now

It appears tensions among legislative leaders and the Governor have thawed, as Big Five meetings occurred all weekend in Sacramento. Discussions seemed to be primarily focused on Proposition 98 (K-12 school funding) and the Governor's proposed reforms of state employee pensions, CalWORKs, IHSS, and eligibility processing. While there are many details that must be addressed, these issues, along with the suspension of Proposition 1A, are widely viewed as the major sticking points that have yet to be resolved.

Raiding local Highway Users Tax Account (HUTA) funds remains a part of the mix in reaching a budget solution. CSAC has been in strong opposition to this proposal and has offered alternative approaches.

The Big Five is not expected to meet today, presumably giving legislative and budget staff time to flesh out issues and proposals the Governor and legislative leadership discussed this weekend. Further Big Five meetings are sure to follow this week.

Update on IOUs

Today marks the first business day that most major banks will stop accepting the state's registered warrants. We understand that Citibank will accept registered warrants until July 17 and Bank of the West has agreed to honor them indefinitely. Many local credit unions and community banks may still accept registered warrants. For a complete list of institutions, visit the State Treasurer's Office [Web site](#), which includes a good amount of information about the acceptance of IOUs and guidelines about buying, selling, and redeeming them. Please keep in mind that banks' decisions as to whether or not to accept the state's registered warrants may change at any time.

Revenues on Continued Slide

Not that there is any need for more bad news, but just in case... the State Controller's Office has released [June 2009 fiscal data](#) indicating that personal income tax revenues and sales tax revenues were down from May Revision estimates, \$987 million (-18%) lower for the PIT and \$154 million (-5.8%), off for sales taxes. Corporate tax collections were up significantly from May Revision estimates by \$1.31 billion (41.2%), due in large part to corporate tax payments made to avoid a new understatement penalty of 20%. General Fund revenues were below the 2009-10 May Revision year-to-date estimates by \$499 million (-0.6%). The Controller indicates that updated cash projections anticipate that the state will have enough cash to make priority payments

(those payments not currently subject to IOUs) through September, but will face a cash shortfall in October.

Summer Break?

This week marks the final week for committee hearings on bills in the Legislature prior to a scheduled month-long summer break. If the budget is unresolved, however, it is unlikely that the break will occur. Recall that the Governor has called the Legislature into a [Proposition 58 special session](#), under which the Legislature must address the state's fiscal crisis within 45 days.

As always, we will send more details your way as discussions continue in Sacramento.

Paul McIntosh
Executive Director
California State Association of Counties
1100 K Street, Suite 101
Sacramento, CA 95814
(916) 327-7500 x506
(916) 441-5507 - Fax
pmcintosh@counties.org
www.csac.counties.org