



June 1, 2009

California Counties: 38 Million Served - Billion\$ at Risk

This was the slogan of CSAC's Legislative Conference here in Sacramento last week. For those of you who were not able to attend, you missed a great opportunity to catch up on events surrounding the state budget crisis, plus some clear insights into what the next few years may look like financially in California. Many supervisors and officials also found this to be a good opportunity to catch up with their colleagues and compare notes.

Mac Taylor, the state's new Legislative Analyst, led off the conference discussing the nature and scope of the current fiscal crisis. As we have reported, the state is now grappling with a budget year deficit of \$24.3 billion. Four May Revisions to the budget have now been released. The first two, released on May 14, provided for \$15.3 billion in budget solutions, plus another \$5.8 billion if the ballot measures did not pass during the Special Election on May 19. This second phase included the suspension of Proposition 1A and the "borrowing" of \$2 billion in local property taxes, along with a permanent shift of \$750 million a year in local gas taxes to debt service.

A third revision was added shortly after the May 19 election when Governor Schwarzenegger withdrew the May Revision proposal to float \$5.5 billion in Revenue Anticipation Warrants (RAWs), stating that the voters opposed borrowing. (CSAC joined with the League of California Cities and the California Special Districts Association to immediately send a letter to the Governor asking him to remove the Proposition 1A suspension as well, since that was also borrowing.)

A fourth revision was added when the Administration acknowledged that the LAO was correct in its assessment that the budget gap was really \$24.3 billion. Last Friday, the Department of Finance released details of its recommendations for closing that additional \$3 billion gap, including a 5% across-the-board pay reduction for state employees. Details of these issues will be reported by CSAC later today in a Budget Action Bulletin.

After Mac Taylor spoke, Chris Thornberg, a principal with Beacon Economics, and formerly with UCLA's *Anderson Forecast*, spoke at length about the nature of this recession, its impact on California and the type of recovery that can be expected. The essence of Mr. Thornberg's presentation was that this recession is the deepest seen since World War II and that it will result in a significant restructuring of the American and California economies. While economists expect that recovery will begin in the third quarter of this year, the recovery will be much shallower than previous recessions. California will not spring back from the current recession like it has in the past. Mr. Thornberg predicted it

will take decades for the housing and financial markets to recover from this restructuring. Property taxes are not likely to return to double-digit growth but instead will see steady, slow, and more normalized increases for at least the next decade; sales taxes will lag significantly, as will personal income taxes.

In other words, while the major portion of the recession appears to be passed, the effects will linger for some time and will need to be taken into account by policy makers.

With that background, conference attendees met in policy committee discussions and marched to the State Capitol to meet with legislators. Among the highlights of the policy committee meetings were:

Administration of Justice: The Committee received four informational presentations on key issues. Assistant CHP Commissioner Ramona Prieto addressed the committee about the Highway Patrol's targeted outreach efforts with local government and public safety partners. A representative from America Works, a for-profit employment firm, discussed its "work first" approach to placing ex-offenders into entry-level employment. Finally, Senator John Benoit and Stanislaus County Chief Probation Officer Jerry Powers presented on SB 678 (Leno and Benoit), a measure that would redirect savings to county probation departments based on an individual county's ability to reduce new prison commitments from among the felony probation population. The committee also received an update from one of CSAC's public safety affiliates - the statewide association of the chief probation officers. For a full copy of the Committee's agenda materials, [click here](#).

Agriculture and Natural Resources: Committee consultants to the Senate Agriculture and Water Committee and the Assembly Water, Parks and Wildlife Committee reported on recent legislative activity aimed at addressing the State's water crisis. Both consultants indicated that while budget considerations will impact the movement of all legislation, a few bills affecting water, and in particular those regarding the Delta, may move forward if cost issues can be addressed. The Williamson Act was discussed with funding and compatibility issues of particular interest to the committee. Lastly, the Secretary of California Food and Agriculture, discussed California's County fairs, and the Assistant to the State Fire Marshall provided an overview of recently adopted regulations mandating the installation of residential fire sprinklers in new developments. For a full copy of the Committee's agenda materials, [click here](#).

Government Finance and Operations: The Committee first discussed the array of cuts and deferrals facing counties, particularly the proposed Proposition 1A shift. Committee members debated and recommended to the CSAC Board of Directors a resolution strongly opposing these proposals. Supervisor Rich Gordon briefed the committee on the

upcoming CCS Local Government Summit on Governance and Fiscal Reform. The joint effort with our city and school counterparts will give local officials a great chance to focus the current reform debate on the issues most plaguing this state: governance and government-wide finances. Marianne O'Malley from the Legislative Analyst's Office outlined the most recent county cuts that the LAO and the Governor's office have proposed. CSAC Legislative Representatives Jean Hurst and Eraina Ortega reviewed some important pending bills that would affect municipal bankruptcies, mandatory sick leave, and workers' compensation disability benefits. For a full copy of the Committee's agenda materials, [click here](#).

Health and Human Services: The Committee discussed a number of state and federal budget and policy issues. The Committee spent a great deal of time discussing the May Revision state budget proposals that impact health and human services programs and where the state budget process may lead this year. The state is facing very grim choices about which programs to fund and which programs to eliminate. Additionally, the policy committee received an update on federal health reform discussions, which is expected gear up this summer. The Committee also approved a resolution on the Human Services Funding Deficit. For a full copy of the Committee's agenda materials, [click here](#).

Housing, Land Use and Transportation: The Committee discussed the impacts of the budget cuts, in particular the permanent reduction of the local share of the gas tax, on local transportation programs. Committee members were also briefed on the comprehensive, transportation, needs assessment just completed that identifies a \$71 billion shortfall for preservation of the local system over the next decade. A number of bills, ranging from a streamlined island annexation process intended to address pockets of poverty left behind by cities, to a bill that would intrude on county board's land use authority over the approval of farm worker housing, were discussed. Finally, the Committee discussed the recent Supreme Court decision *Carciari v. Salazar* that has the potential to greatly change the Indian Gaming landscape. For a full copy of the Committee's agenda materials, [click here](#).

On Wednesday at noon, about 50 county supervisors and officials met in the lobby of the conference center to hold a press conference assailing the Governor's proposal to suspend Proposition 1A and borrow local government property taxes. The press conference was well-reported by newspapers around the state.

The conference concluded on Thursday with a meeting of the CSAC Board of Directors. After hearing from Director of Finance Mike Genest, President Gary Wyatt appointed several supervisors to a budget task force to provide immediate response and advice to CSAC on budget issues as they develop over the next two weeks. The task force will also help to shape CSAC's message as

preparations for a local government summit, to be held in Sacramento on July 17 and 18, get underway.

Also at the conclusion of the conference, on Thursday and Friday, the *CSAC Institute for Excellence in County Government* conducted a class in county government finance. Nearly 60 people were registered for the course, taught by Diane Cummins, previously the Chief Fiscal Policy Advisor for the Senate President Pro Tem, now a guest lecturer at CSU Sacramento. This course was the ninth course since the *Institute's* inception and attendance at the last three courses have been at capacity. We also point out that it is quite likely that the first supervisors and county administrator to achieve a credential will do so prior to this year's annual meeting in Monterey.

CSAC will continue to provide the most detailed and up-to-date information regarding budget conference activities and Big Five discussions as allowed. In the meantime, if you have any questions on a specific budget issue, please let us know.

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