



October 8, 2010 (Noon edition)

100 Days Later - A State Budget

It is hard to know what to say about the activities of the Legislature over the past 24 hours, other than a budget was finally approved after a long and ugly legislative floor session. The historic wait is over.

Trailer bill language was only made available recently and there are some budget details that you should know about.

Cash Management: AB 1624 contains modifications to the state's cash management plan. Given the delay in enacting a state budget, the State Controller will need some weeks to prepare for the issuance of Revenue Anticipation Notes (RANs) to assist the state in meeting its cash needs over the next few months. AB 1624 authorizes additional deferred payments to K-14 schools and CalSTRS of \$5.5 billion to assist in bridging the cash shortfall between now and then. Of importance to counties, however, is language that authorizes the State Controller to continue delaying payments to counties for the CalWORKS program and county administration payments associated with the CalWORKS program. This means that, much like what occurred in early 2009, the State Controller can delay payments to counties at any time to ensure that the state has sufficient cash to make its priority payments. We understand there is a potential for delayed payments in October, at least. We are very concerned about this new language and will be communicating those concerns directly to the Governor and the State Controller.

Mandate Securitization: SB 866 contains the authorization for cities, counties, and special districts to securitize future payments associated with pre-2004 mandate reimbursements. These amounts total about \$1 billion, with counties owed the bulk (about 80%) of funds. SB 866 passed the Senate and Assembly and is awaiting action by the Governor.

Williamson Act: SB 863 contained clean-up language to AB 2530 (Nielsen) and a \$10 million appropriation for Williamson Act subventions. However, it also contained language related to two redevelopment issues: the first allowing redevelopment agencies that failed to make their statutorily required contribution to ERAF to pay that amount over a period of time, and the second allowing the City of San Diego's redevelopment agency to increase its debt cap in order to assist in the siting of a new football stadium. While this matter generated significant controversy late in the evening, the logjam broke in the early morning hours and the bill was approved by both houses and sent to the Governor.

Transient Occupancy Taxes (TOT): SB 848 (Hollingsworth) was a late addition to the budget package and would have authorized online travel companies (OTCs) to remit TOT on the wholesale rate of the hotel instead of on the rate paid by the consumer. This issue is being litigated in California and nationwide. Cities and counties sounded the alarm on this bill early in the day, pointing out that SB 848 had absolutely nothing to do with the state budget. Gratefully, SB 848 failed to garner the necessary 2/3 vote in the Assembly and never made it to the Senate Floor.

Justice Issues: The corrections budget provides approximately \$80 million in back payments owed to counties associated with transporting state prisoners and detaining parolees in local facilities. However, the budget delays approximately \$45 million of what the state is expected to owe locals for these local assistance reimbursements in 2010-11.

Please note that despite previous reports that the judiciary trailer bill would contain an administrative fee associated with red light camera violations (potentially shared among cities, counties, and red light camera vendors), this element *is not* part of the budget package.

Transportation: The Legislature failed to pass trailer bill language relating to transportation (SB 854/AB 1614), which included two critical clean-up measures for counties. First, the language would have provided cities and counties with a one-year extension on the use-it-or-lose-it requirement for Prop. 1B Local Streets and Roads (LSR) funds. As originally passed in 2006, Prop. 1B requires local agencies to expend LSR monies within three years after the fiscal year in which it was appropriated. However, the state has deferred transportation payments to cities and counties every year in which there was also a Prop. 1B LSR payment. In implementing these deferrals, the state authorized local agencies to backfill the transportation deferrals with Prop. 1B funds to be repaid when the state repaid the deferrals. As such, cities and counties need an additional year in which to dedicate Prop. 1B funds to Prop. 1B projects and meet the use-it-or-lose-it requirement. Second, the language would have clarified that Prop. 42 provisions do not apply to the new Highway Users Tax Account (HUTA) (Streets and Highways Section 2103) funds per the transportation tax swap that was adopted in March 2010. The language is necessary to clarify and codify the Legislature's intent for these new HUTA revenues because the State Controller has opined that Prop. 42 provisions do apply to the new HUTA. In the coming days, CSAC will work with legislative leaders, key staff, and the State Controller to identify how best to bring certainty to these two issues.

New CalPERS Reporting Requirements: SB 867 requires the CalPERS Board of Administration to provide the Legislature, the Governor, and the State Treasurer with a report detailing the investment return assumptions, discount rates, and amortization periods used each time employer contribution rates are adopted, including those rates for counties contracting with CalPERS.

Additionally, the measure requires the report to include calculations using alternative assumptions and lower discount rates. Counties should be aware

that the alternative calculations will almost always demonstrate higher unfunded liabilities.

Needless to say, it was an arduous process finalizing the 2010-11 budget package and there is certainly nothing to cheer about, except that it is over. Governor Schwarzenegger indicated that he intends to sign the budget as early as this evening, after using his line-item veto authority to blue pencil nearly \$1 billion in spending to bolster the reserve. CSAC will prepare a detailed report, outlining budget details and the Governor's actions early next week. In the meantime, staff will get some sleep and then be available to answer your questions.

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