



June 15, 2009

## Budget Conference Committee Acts on Matters Affecting California's Counties

The Budget Conference Committee convened briefly today to consider the remaining open items before them. This *Executive Director's Watch* will update you on the Committee's actions and provide some context for the current discussions.

Conference committee actions of note:

- Suspended specified reimbursable mandates for a savings of \$100 million.
- Suspended Williamson Act subventions for one year for a General Fund savings of \$34.7 million, without recommending statutory changes related to contracts with landowners.
- Rejected the Governor's proposal to suspend Proposition 1A (2004).
- Approved budget trailer bill language that would provide a statutory fix to achieve the \$350 million ERAF shift from redevelopment agencies in 2008-09 and extended that shift for two years (2009-10 and 2010-11).
- Rejected the elimination of Healthy Families.

**It is important to note that while the conferees' actions may seem definitive, the budget isn't over until it's over. This is a VERY fluid situation and the Committee could very easily return tomorrow and undo what they voted on today.** Particularly during the discussions on suspension of Proposition 1A, the Committee noted that they were not interested in voting for the proposal until they had a full understanding of where they were at the end of the budget negotiations. In other words, despite action to reject the option today, a Proposition 1A suspension remains on the table and may be used if the Legislature deems it necessary to do so.

The Conference Committee will continue its work tomorrow to finish the open items before them. Up on Tuesday are the following subjects: public safety, human services, general government, revenue, and education. Presumably, the budget debate will then move to the Big Five or some other version of leadership negotiations after the Conference Committee concludes its work. CSAC will keep you up-to-date on actions as they occur.

The Budget Task Force held a conference call this afternoon. The two main topics of discussion were the proposed HUTA shift and the Proposition 1A borrowing.

The Budget Conference Committee (BCC) acted on Thursday, June 11 to "take" two years of nearly the entire local portion of the gas tax or Highway User Tax Account (HUTA) funding for general fund relief. This is equivalent to about \$1.7

billion, with this loss shared equally between cities and counties. A legal opinion has been obtained by the League of California Cities challenging the Constitutionality of “taking” the local share of the gas tax, but the Governor and Legislature have not responded to this challenge.

In addition to the HUTA loss, we understand that the Department of Finance (DOF) intends to borrow the first two quarters of the local portion of Prop 42 for cash flow purposes for an additional loss in FY 2009-10 of \$288 million—shared equally by cities and counties. One alternative being discussed is to raise the gas tax by 5-cents to offset the HUTA raid and direct that money towards debt relief. Another alternative getting attention is to raise the HUTA 12-cents. During the February budget negotiations there was agreement between the Governor and all caucuses to increase the gas tax or HUTA by 12-cents with a significant amount initially directed towards debt service on the transportation bonds. The remaining amount was dedicated to the State system only. This was a major and alarming departure from past increases in the gas tax where a portion has always been dedicated towards the local system, which represents 82 percent of the State’s maintained miles. This proposal was eliminated from the budget package at the very last moment in order to secure the last remaining Senate vote.

The Budget Task Force discussed this issue and recommended that the Board of Directors hold a special meeting to consider opposing the HUTA takeaway and ongoing suspension and whether CSAC support a fee or user tax as replacement revenue to service debt (5 cents) related to transportation bonds to mitigate the HUTA loss. Further, should such a proposal exceed the transportation debt service needs (12-15 cents), CSAC should support these additional fees or taxes in a manner that ensures equal distribution between the State and local governments. President Gary Wyatt has called a special meeting of the Board of Directors for Wednesday at 9am to discuss this issue.

In regards to Proposition 1A, the Budget Task Force concurred that any borrowing should be accomplished on a proportional basis and that CSAC not support exempting any agency from a fair-share participation. CSAC is negotiating trailer bill language with the Department of Finance, Treasury and State Controller to enable California counties to bond against the borrowing with a goal of covering not only the amount borrowed but any interest or bond issuance costs as well.

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