Executive Director's Watch

July 31, 2009

A Lot of Questions, Work Remains on 2009-10 State Budget

It has been an eventful two weeks here in Sacramento. *CSAC's Budget Action Bulletins #7* and *#8* provide a thorough breakdown of the budget process and I encourage you to read the details of the budget as passed by the Legislature in *CSAC's Budget Bulletin #7* and a breakdown of the items blue-penciled by the Governor in *CSAC's Budget Bulletin #8*.

Though the budget is done for now, several aspects of the package remain in doubt. Legislators and others have expressed concern that the Governor acted illegally in blue-penciling funds. The crux of the argument is that the bills were not an appropriation or additions to the budget adopted in February, but were reductions; the Governor only has the authority to reduce additions to the budget or appropriations. Since many of the cuts were in program areas affecting California's counties (including the Williamson Act and health and social services cuts), CSAC will continue to monitor the legal opinions and developments on potential litigation. (See the link, here.)

Another area to highlight is the ability to bond against, or securitize, the borrowing of property taxes under the suspension of Proposition 1A. The legislation (ABX4 15) provides that the state will borrow 8 percent of property taxes allocated in 2008-09 from local agencies. There are hardship provisions in the bill, but it appears at this time that no county would qualify. Also, if an agency did qualify for the hardship, the amount of taxes diverted from other agencies in the county would be increased to make up the difference. The *Sacramento Bee* has developed a tool for determining the hit under suspension of Proposition 1A (link here) – **note that CSAC does not know the validity of the figures presented.**

Under the legislation, the state's borrowing has to be repaid within three years with interest, and this constitutional requirement creates a receivable. The legislation authorizes a joint powers authority to purchase those receivables from local agencies, thereby holding them harmless from the property tax loss. The state will then pay the joint powers agency the cost of the receivables, plus bond issuance costs and interest, in 2013.

The California Statewide Community Development Authority (CSCDA), which is a joint powers agency created by CSAC and the League of California Cities, qualifies as the joint powers agency under the legislation. CSCDA will meet on Wednesday, August 5, to get the ball rolling on issuing the roughly $2 billion in bonds with which to purchase the receivables.

There remain a few issues with the Proposition 1A borrowing on which CSAC, the League, and the California Special Districts Association are working. Of interest will be how the bond market reacts to the budget solutions when the State goes to market in the coming weeks to issue $7 to $9 billion in Revenue Anticipation Notes (RANs). The repayment to local governments is guaranteed by the California Constitution and the legislation provides a high priority for repayment. CSAC will continue to work with the bond market, though, to ensure all protections and priorities are contained in the law.

Finally, we have received several questions about the costs of the May 19 statewide special election. California counties filed information with the Department of Finance supporting an appropriation of roughly $68 million to reimburse counties for the cost of administering that election, and, although the Governor stated in his proclamation that the costs should be reimbursed, it will be difficult getting support for an appropriation in this environment. However, California counties incurred an expense that is the legitimate obligation of the state, and CSAC will continue to press for full reimbursement.

What this is all means is that the 2009-10 state budget is far from being a done deal, and the outstanding issues could create significant holes in the budget approved by the Legislature and signed by the Governor. As always, CSAC will keep you updated on the next steps in this process.

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