



February 18, 2010

Special Session on Budget Nearing Conclusion

Today, the Senate approved components of a budget package to partially address the state's near-\$20 billion budget deficit. Both the Senate and Assembly plan to reconvene on Monday, February 22 to finalize the package. You will recall that Monday is the deadline for action to address the state's fiscal emergency.

The special session package includes \$347.5 million in current year budget savings and \$4.66 billion in budget year savings for a total savings of about \$5 billion to address the shortfall. Expect a Budget Action Bulletin from CSAC next week outlining the components of the full package.

Two components of the package are of significance to counties: cash management and the transportation funding swap. We've outlined the details of these two proposals as we know them today. Please keep in mind that we have yet to see language on either of these measures, but have a conceptual understanding of the proposals.

Transportation Funding Swap.

The Senate Budget Committee adopted "in concept" the Senate Democrats' proposed alternative "transportation funding swap" yesterday evening, and both houses plan to take action this coming Monday. The alternative proposal would eliminate the sales tax on gasoline, including Proposition 42, but would provide additional revenues for highways, local streets and roads, and transit above the Governor's proposal.

In the first year, the proposal would impose a 12.9 cent gas tax that would be allocated consistent with the Governor's proposal, which provides \$629 million for local streets and roads, equivalent to what Prop 42 would generate. However, beginning in 2011-12, the proposal would start to capture the potential growth of the sales tax revenue stream by adjusting the excise tax to fully replace what the sales tax on gas would otherwise have generated, and local streets and roads will continue to receive 40% of these revenues (consistent with what Proposition 42 currently provides). While the Governor's proposal completely eliminates transit funding, this alternative would partially restore transit funds by providing some one-time funding and approximately \$313 million on an annual basis for transit operations and the ability for metropolitan planning organizations (MPOs) to levy a regional fee to support SB 375 implementation.

While the Senate alternative holds harmless local streets and roads funding into the future by adjusting the gas tax annually to the level that the sales tax on

gas would generate, it does not address the loss of constitutional protection afforded Proposition 42 revenues. Further, this proposal still eliminates significant revenue streams for transit, while providing new additional revenues for the state highway system for maintenance and also retaining a significant portion for the State Transportation Improvement Program (STIP).

Cash Management.

The Administration has been working with the State Controller's Office, State Treasurer's Office, the Legislative Analyst's Office, and legislative staff on a proposed cash management plan to address current year and budget year cash shortfalls. While the state will experience a cash shortfall in the current year, there are no additional payment deferrals to counties in the current year.

For the budget year, the proposal includes significant deferrals to counties in the areas of social services, transportation, and Proposition 63. For all of these deferrals, the proposal includes a \$1 billion cap in outstanding payments to local governments (counties and cities) at any given time in 2010-11. The deferrals would be limited to the 2010-11 fiscal year and small counties (those with a 50,000 or less population) and cities within those counties would be exempted from the deferrals. The Department of Finance, the State Controller's Office, and the State Treasurer's Office will be in regular communications on the state's cash situation and will have some discretion to modify deferrals due to hardship.

- **Highway Users Tax Account (HUTA) deferrals:** HUTA payments will be deferred \$50 million per month from July 2010-March 2011 and will be fully repaid in April 2011. These funds would be deferred half from cities and half from counties.
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- **Social Services deferrals:** Social services payment deferrals would be limited to three times in the fiscal year: July 2010, October 2010, and March 2011. The July and March deferrals are limited to 60 days, while the October deferral is limited to 90 days. With a 30-day notice (that may be waived by the Joint Legislative Budget Committee), the deferrals may be moved 30 days (i.e. the October deferral could be used in September or November and paid in 90 days). While the 30-day notice is required for legislative notification only, we are told by the Department of Finance that affected entities would also be notified.
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- **Proposition 63 deferrals:** The Proposition 63 July 2010 payment of \$300 million would be paid in May 2011.

Again, we anticipate that two proposals described above will be considered on Monday with the remainder of bills in the budget package. CSAC will report on the full package in a *Budget Action Bulletin* when more detailed information becomes available.

Paul McIntosh
Executive Director

California State Association of Counties
1100 K Street, Suite 101
Sacramento, CA 95814
(916) 327-7500 Ext. 506

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