Executive Director's Watch

January 20, 2009

CSAC has been following the discussions/negotiations of solutions to the state's immediate cash flow issues as well as their long term budget debacle. We reported to you last Friday about the Controller's anouncement that he would have to delay funds to counties effective February 1 if budget solutions are not adopted by the end of this month. That announcement poses significant problems to counties.

Separate and distinct from that issue, and to an even **greater level of concern**, is a proposal from the Administration to once again defer payments to counties. Only, like ERAF I compared to ERAF II, this one is much larger and longer than the defferal used last year to help the state with their cash flow.

CSAC's preliminary analysis of the proposal estimates it would impact counties in excess of **$3.5 billion** and hits not only health and human service programs, but transportation as well.

The Controller pays counties and cities for gasoline sales tax revenues, or Proposition 42, on a quarterly basis. The fourth quarter is customarily paid in June of the following calendar year. This proposal would delay that payment from June of 2009 until October of 2009. The language allows counties to use their existing cash balances of Proposition 1B money to meet cash obligations, as long as it is replaced when the Controller transfers the revenue in October. However, that money is no longer accessible due to recent actions by the Pooled Money Investment Account board. Further, there are "*use it or lose it*" provisions that apply to those monies. Thus should a county continue to rely on such funds for operations, rather than for projects, they may lose those funds. Counties may accrue the suspended revenue back to the 2008-09 fiscal year. No counties are exempt from this deferral. The total amount of deferred money for counties could be $60,000,000.

Most Highway Users Tax Account revenues, or gas taxes, are distributed to counties and cities monthly, in the month after they are collected. This proposal would delay payments of revenue collected during January, February, March, and the first half of April until September, and would also delay payments of revenue collected during the second half of April, May, June, and July until October. The language allows counties to use their existing cash balances of Proposition 1B money to meet cash obligations, as long as it is replaced when the Controller transfers the revenue in October. However, as mentioned above that money is currently inaccessible due to recent actions by the Pooled Money Investment Account board and also has "*use it or lose it*" provisions that apply. Counties may accrue the revenue suspended from the 2008-09 fiscal year back to that year. No counties are exempt from this deferral. The total amount of deferred money for counties and cities combined could be $750,000,000, half of which is attributable to counties.

The language proposes to suspend monthly advances of state general funds to counties "*for benefits or aid grants, administration, and for employment and supportive services*" for the seven-month period February through August. Payments would resume in September and all previously deferred payments would be made by the end of September. It is not clear exactly which programs would be affected, but SSI/SSP and IHSS would be specifically exempted from this deferral. Counties with populations of fewer than 40,000 would be exempt from this deferral, as they were in the defferals last year. If the same programs are deferred as were deferred last year, then with no caseload growth the total amount of deferred money for counties would be over $3 billion

The language proposes to delay one-month's worth of Medi-Cal provider payments for one month, sometime in the current fiscal year.

The proposed language would delay reimbursements for state mandate claims until October 15 of every year, instead of August 15. There are no exemptions for this delay, nor is there a sunset date.

Clearly such a proposal would be catastrophic to California's counties. Those counties simply are not in a position to float an interest-free loan to the state for seven months. Last year's deferrals hurt some counties, but the landscaqpe has changed considerably since that time. Virtually every county would be imnpacted by this proposal and some may find it necessary to close the doors of clinics, treatment centers or worse.

It is not too early to contact your legislator and express your adamant opposition to such a proposal. CSAC is arranging for meetings with the Governor and legislative leadership by our officers and others to express our strongest possible opposition.

It is going to be a long summer.

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