

# Budget Action Bulletin No. 7

2008-09 Proposed State Budget

Week of August 18, 2008

## Via Electronic Mail

DATE: August 18, 2008

TO: CSAC Board of Directors  
County Administrative Officers  
CSAC Corporate Associates

FROM: Paul McIntosh, Executive Director  
Jim Wiltshire, Deputy Director

RE: **Budget Action Bulletin #7**

On this past sweltering Sunday in Sacramento, the Assembly met to consider a revised budget proposal in an attempt to resolve a now 49-day budget standoff. Assembly Democrats and Republicans traded barbs for about four hours before the amended version of AB 1781 (the Assembly Floor Budget), failed on a vote of 45-30, with Assembly Members Nell Soto, Sharon Runner, and Alberto Torrico absent. Two Assembly Members in attendance did not vote: Nicole Parra and Greg Aghazarian.

The new package includes revisions to the revenue package, restoration of a number of items in the public safety area, and "budget reform" in the form of the Legislative Analyst's Office (LAO) proposal for strengthening Proposition 58's requirements for reserving revenue. For counties, it is important to note that the new proposal does not include suspension of Propositions 1A and 42. Details of this new proposal are contained in this Budget Action Bulletin.

County elections officials are in regular communication with the Secretary of State's office regarding the print deadlines for the November ballot. While we are under the impression that the deadline for placing items on the November ballot has passed, it is clear that these deadlines are not yet hard and fast.

However, the clock is ticking, and the Legislature is quickly running out of time to place items on the ballot in November. Recall that likely candidates for ballot measures include budget reform, lottery modification and securitization, changes in the High-Speed Rail bond measure, and a potential water bond. We've posted the most recent communication between the Secretary of State and the Governor regarding ballot deadlines on our [website](#).

### **WHAT YOU CAN DO:**

We continue to urge counties to contact their legislative delegation and urge them to hold the line on rejecting the suspension of Propositions 1A and 42. We need to be vigilant as the week progresses, to ensure that local revenues stay local.

### **WHAT'S BEEN HAPPENING:**

#### **ADMINISTRATION OF JUSTICE**

SB 1072, the supplemental budget bill, contemplates certain restorations in the justice area. (If an item is not mentioned below, the proposed budget level remains that which came out of the budget conference process; please refer to Budget Action Bulletin #5 for further details.)

Specifically, SB 1072 proposes to restore funding, as follows:

- Department of Justice forensic lab services at \$32 million (which would, if adopted, eliminate the cost shift to local agencies);
- Local detention facility subvention (booking fees) at \$31.5 million;
- The small/rural sheriffs grant program at \$16.7 million (or \$450,000 per agency for the 37 smallest counties);
- The California Multijurisdictional Methamphetamine Enforcement Team (Cal-MMET) at \$10 million; and,
- \$271 million in corrections reforms restorations (offset by \$10.4 million in corrections savings); details regarding these elements are not available at this time, as SB 1072 is not available in print.

**AGRICULTURE AND NATURAL RESOURCES**

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**Emergency Services.** The Assembly Floor Budget made changes to the Governor’s Emergency Response Initiative, including an augmentation of the proposed surcharge on homeowner’s insurance policies. This is an increase of about 50 percent from the Conference Committee Budget, averaging about \$25 for properties located in high-risk areas, and \$13 for properties in low risk areas.

**State Parks.** The Assembly Floor Budget no longer includes a ten-dollar annual “State Parks Access Pass” vehicle registration surcharge. Rather, this proposal will be included in a stand-alone policy bill. The proposal would provide free access to state parks and beaches. In exchange for paying the ten-dollar fee, Californians would be provided free day-use access to virtually all state parks, no day-use or parking fees required. If approved, the proposal would raise \$282 million for state parks operations and deferred maintenance.

**AB 32 Implementation.** The Assembly Floor Budget includes a \$32 million loan from the Beverage Recycling Fund for ongoing funding for AB 32 (Statutes of 2006), the global warming measure, implementation.

**Coastal Commission.** The Assembly Floor Budget rejects the \$1.18 million in General Fund cuts to the Commission’s ongoing programs.

**GOVERNMENT FINANCE AND OPERATIONS**

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**Taxes.** The Assembly Floor Budget continues to include new revenues, but they have changed somewhat from the original conference committee report. This would increase state taxes by \$6.7 billion, and also includes \$2.8 billion in other new revenues.

Some of these 'other new revenues' are accounted for by updates in revenue estimates and assuming the Governor’s cash accrual proposal, but also include dropping proposals to revise tax schedules and roll back dependent credits for higher income taxpayers, loans from special fundS, and providing a new tax amnesty program.

The \$6.7 billion of increased taxes are:

- \$5.1 billion from the 10- and 11-percent tax brackets for joint filers over \$321,000 and \$642,000, respectively.
- \$1.1 billion from suspending the Net Operating Loss deduction.
- \$470 million from restoring the Corporate Tax rate from 8.8 percent to 9.3 percent.

**Budget Reform.** The package the Assembly voted down on Sunday included an alternative budget reform plan. Assembly Republicans presented their plan, ACA 19, to the Assembly Budget Committee on Friday, where it failed passage. The plan taken up yesterday was modeled on the one proposed by the Legislative Analyst in February, strengthening the provisions of Proposition 58's Budget Stabilization Account (BSA). It has three main components:

- It would increase the target size of the BSA required by Proposition 58 from five percent of General Fund revenues to 10 percent.
- In an attempt to make it more difficult politically to access funds from the BSA, it would require that a bill doing so contain no other provisions.
- It would require fund transfers to the BSA when annual revenues exceed those anticipated in the budget bill by more than five percent. If, after meeting any Proposition 98 obligations, this amount exceeds the amount necessary to bring the BSA up to its 10 percent target, that money could be spent only on budgetary borrowing, bonded indebtedness, one-time infrastructure or other capital outlay, one-time tax cuts, unfunded liabilities for the benefit of state annuitants, or additional transfers to the BSA.

**Lottery Securitization.** The Assembly version of the budget also included provisions allowing the securitization of the entire State Lottery revenue stream, for placement on the November 2008 ballot. The plan would have no effect on the 2008-09 budget, but would provide an estimated \$5 billion in each of 2009-10 and 2010-11. The plan proposes no new games or technology, but would make minor changes such as increasing prize payouts. It would specifically protect education from realizing any financial loss. A new fund would be created to accept all proceeds from the borrowing, and could only be used to repay budgetary borrowing, bonded indebtedness, and payments to the BSA.

## **HEALTH AND HUMAN SERVICES**

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The Assembly Floor version does not modify the Health and Human Services budget items of interest to counties. Items remain funded as reported in previous Budget Action Bulletins.

## **HOUSING, LAND USE AND TRANSPORTATION**

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The budget voted on in the Assembly Sunday night did not include any diversion of Proposition 42 funding. However, we must remain vigilant until the budget is passed by the Legislature.

Other relevant issues pertaining to transportation funding are as follows:

**Public Transportation Account.** \$100 million in additional Public Transportation Account funds are diverted to the General Fund. These cuts are allocated as follows:

- \$36 million from the State Transit Assistance (STA) Program, which takes the Assembly's STA Program proposal down from \$559 million to \$523 million. That is still \$217 million above the Governor's May Revision proposal for the STA Program (and \$217 million above last year's STA Program).
- \$64 million from the Caltrans-controlled portion of Public Transportation Account (PTA) funds. Exact details are not available, but we assume that means *either* the Governor's May Revision proposal for a \$64 million loan to the PTA from the Traffic Congestion Relief Fund, or, from PTA funds that are supposed to be available for transit capital projects in the State Transportation Improvement Program (STIP) and/or Interregional Transportation Improvement Program (ITIP).

**“Spillover” Revenue.** The estimate of “spillover” revenue has been revised upward since the Governor's May Revision proposal, by another \$250 million, and all these dollars would be diverted to the General Fund.

**Proposition 1B Transit Funds.** Appropriates the same Proposition 1B transit funds as contained in the Governor's original January 10<sup>th</sup> Budget proposal:

- \$350 million for capital, from the Public Transit Modernization, Improvement, and Service Enhancement Account (PTMISEA).
- \$101 million for security and safety, from the Transit System Safety and Disaster Response Account (TSSDRA).

**Proposition 1B Local Streets and Roads.** The Assembly Floor Budget does not contain an appropriation for local streets and roads from Proposition 1B for 2008-09.

## **WHAT'S GOING TO HAPPEN NEXT:**

CSAC will keep you apprised of any changes and updates as budget talks continue.

**Stay tuned for the next Budget Action Bulletin!**

**If you would like to receive the Budget Action Bulletin electronically, please e-mail Faith Conley, CSAC Legislative Analyst, at [fconley@counties.org](mailto:fconley@counties.org).**

**General Fund Changes to the Conference Committee Report  
(in millions)**

<b>New General Fund Spending REDUCTIONS</b>	
Department of Justice savings (identified by the department)	-\$17.0
Corrections savings	-\$10.4
Cut Transit funding and shift Home-to-School costs to Public Transportation Account	-\$100.0
Cut Transit funding and shift General Obligation debt costs to Spillover Transit Funds	-\$250.0
<b>TOTAL General Fund Spending Reductions</b>	<b>-\$377.4 million</b>

<b>New General Fund RESTORATIONS</b>	
Mentoring Partnership	\$0.1
Volunteer Matching Network	\$0.4
Office of Gang and Youth Violence	\$0.9
California Multijurisdictional Methamphetamine Enforcement Team (Cal-MMET)	\$10.0
Corrections Reforms	\$271.0
Booking Fees	\$31.5
Rural Sheriffs	\$16.7
DOJ Forensic Lab Costs	\$32.0
<b>TOTAL General Fund Restorations</b>	<b>\$362.6 million</b>

<b>General Fund Revenue Changes</b>	
Updated forecasts	\$98.0
Updated estimate for Upper Income Tax Brackets increase	-\$500.0
Updated estimate for Tax Amnesty Proposal	-\$211.0
Delete proposal for proposed revision of tax schedules to offset "indexing"	-\$815.0
Delete proposal to close higher income earners' dependent child credit loophole	-\$215.0
Include Governor's accrual proposal	\$1,856.0
DOJ settlement transfer	\$11.0
<b>TOTAL General Fund Revenue Changes</b>	<b>\$224.1 million</b>

Conference Committee General Fund Reserve	\$1,518.0
<b>Assembly Floor Version General Fund Reserve</b>	<b>\$1,757.0 million</b>