

State Budget Status

Cash Flow (Registered Warrants or IOUs)

With an adopted State budget in place, State Controller John Chiang announced that his office will stop issuing IOUs on September 4, 2009 (one month earlier than previously estimated). The State Controller completed the “stress test” of cash flow and plans to borrow \$10.5 billion in Revenue Anticipation Notes (RANs) that should provide sufficient cash to meet the State’s payment obligations for FY 2009/10.

This will also mean that the \$12 million in Registered Warrants held by the County Treasurer can be redeemed on September 4, 2009 (3.75% interest rate). State has issued \$1.95 billion in Registered Warrants.

Cash Flow (Proposition 1A)

California cities, counties and special districts are moving forward with efforts to securitize Proposition 1A to relieve the burden of loaning the state property tax revenue. To facilitate securitization of the borrowing, the State budget authorizes the California Statewide Communities Development Authority (CSCDA) to issue bonds to purchase receivables due to cities, counties and special districts from the State.

The most significant concern or possible impact to local agencies is from the current timing of the borrowing and securitization. Under the approved budget, the first installment of property tax is scheduled to be transferred to the State by January 15, 2010. While it is the goal of the CSCDA to complete the securitization on or before January 15, 2010, the provisions of the State budget allow for the securitization to occur in March 2010. In order to advance this timeline, CSAC and the League of Cities are working with the Department of Finance and the State Legislature to craft an amendment to ABX4 15.

The Orange County impact is estimated at \$49 million:

- General Fund impact at \$37 million
- OC Parks impact at \$4.1 million
- OC Libraries impact at \$3.1 million
- Flood Control District at \$5.3 million

Legislature Back in Session

The State Legislature returned on August 17, 2009 and has been working on the prisoner reduction bill. On August 19th, the Senate passed a plan to reduce prison population by 27,300 and to form a commission to change sentencing laws. The proposal relies on commuting some sentences for non-violent, non-sex related offenses, providing credits on sentences for completing rehabilitation and education programs, and reducing active supervision of certain parolees. The bill is currently with the Assembly.

Line Item Veto Lawsuit

Lawyers representing Senator Steinberg have filed a lawsuit against the Governor alleging that he overstepped his authority by using his line-item veto power to cut approximately \$500 million from the budget package approved by the Legislature. While

this lawsuit works its way through the Court, it does not appear that the Legislature will be making proposals on alternate budget reductions to the Governor's line-item vetoes.

Economic Update

It is clear from the current economic update that significant positive variances in the State revenue picture are unlikely for FY 2009/10.

- State's unemployment rate increased from 11.6% in June and 11.9% in July
- Job losses are slowing compared to a year ago, but the State continues to lose jobs each month (63,000 March to June monthly average vs. 87,500 November to February monthly average)
- Residential real estate activity is showing signs of stability (single family home sales up 20% from a year ago)
- Preliminary July cash revenues for the State are on target with the revised budget:
 - Personal Income Tax revenue was \$74 million below May Revise budget
 - Sales tax was \$76 million below May Revise budget
 - Corporate tax revenue was \$104 million above May Revise budget
 - Vehicle License Fee (VLF) was \$36 million below May Revise budget
 - Other taxes were \$8 million above May Revise budget
 - With the unallocated revenue reduction of \$148 million for July that was included in the budget, the State had a positive \$65 million variance for the month (good way to start the year)

State Budget Impact Reconciliation

Orange County impact analysis is ongoing with a preliminary estimate of impact of approximately \$100 million (includes Proposition 1A borrowing). We plan to provide recommended budget adjustments to your Board in late September or early October, ahead of the 1st Quarter Budget Report. The CEO Budget Office will continue to provide weekly updates to the Board staff during the weekly EA Briefings as new information is available.

Sheriff Budget Reduction Plan

The Sheriff has provided the budget reduction plan to our office. This plan includes alternate reductions from the original plan approved by the Board during the budget hearings. Our office has reviewed the plan line by line, and while we are still working with the department in completing our analysis, we can say that the department has provided a detailed plan (by position and division) to address the \$28 million budget shortfall. Our office is meeting with the department and HRD this afternoon to review their plan of workforce impacts. Once the department has completed the HRD review, we will begin scheduling meetings with the affected labor unions and move forward with the full implementation of the reduction plan.