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California State Senate

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ON

BUDGET AND FISCAL REVIEW

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Agenda

May 3, 2012
Upon Adjournment of Session
Room 4203

AB 103 – State Cash Resources

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Mark Leno, Chair

Bill No:	AB 103
Author:	Committee on Budget
As Amended:	May 2, 2012
Consultant:	Keely Martin Bosler
Fiscal:	Yes
Hearing Date:	May 3, 2012

Subject: Cash Management.

Summary: These amendments provide the necessary statutory changes in the area of cash management and cash deferrals in order to ensure sufficient cash reserves during the 2012-13 fiscal year.

Background: Since 2010, the state has employed a version of the intra-year deferrals of major cash payments to schools, universities, and counties in an effort to conserve cash resources and manage the external cash borrowing necessary to ensure the solvency of the state.

Proposed Law: This trailer bill contains the following major amendments related to cash management. Most of the payment deferrals proposed for 2012-13 are similar to deferrals approved last year for 2011-12. However, the deferrals to K-12 schools are significantly less than they have been in prior budgets.

1. **Scheduled Deferrals - General.** Authorizes General Fund payments to be deferred starting in July 2012, October 2012, and March 2013, except as specified below. The deferrals can be made for no more than 60 days, 90 days, and 60 days, respectively. These deferrals may be triggered off or repaid early, in whole or in part, at such time as the State Treasurer, State Controller, and Director of Finance determine sufficient cash reserves are available. The deferrals can be moved forward to the prior month or delayed to the subsequent month. However, the Joint Legislative Budget Committee must be notified before changes can be made. The following General Fund payments are subject to the deferral criteria outlined above along with the more detailed payment-specific criteria listed below:
 - **Supplementary Security Income/State Supplementary Payments.** Permits up to three deferrals of payments to the federal government for Supplementary Security Income/State Supplementary Payments (SSI/SSP) benefits.
 - **Local Governments.** Permits deferral of social services and other payments to cities, counties and local governments not to exceed \$1 billion. This may include deferral of CalWORKs assistance payments and other social services costs. The Administration has stated that it does not anticipate resulting delays to beneficiaries' receipt of assistance payments. Payments to counties or cities with a population of less than 50,000 shall not be deferred.
2. **Scheduled Deferrals – K-12 Education.**
 - Schedules a specific deferral plan for payments to K-12 local educational agencies (LEAs):
 - \$1.2 billion shall be deferred in July 2012.
 - \$600 million shall be deferred in August 2012.

- \$800 million shall be deferred in October 2012.
 - \$700 million of the deferral made in July 2012 shall be paid in September 2012.
 - The remaining \$1.9 billion of the deferrals made in July, August, and October 2012 shall be paid in January 2013.
 - \$900 million shall be deferred in March 2013 and repaid in its entirety in April 2013.
- Includes a hardship waiver process for LEAs who might not be able meet financial obligations if payments are deferred. In order to be eligible for a hardship waiver, LEAs would need to qualify for an emergency apportionment.
3. **Payment Smoothing.** Modifies higher-education payments to smooth payment over the fiscal year.
- **University of California** – Authorizes the State to pay only one-twelfth (1/12) of the UC’s annual appropriation each month between July 2012 and April 2013. After April 2013, there are no limitations on payments within the UC’s appropriations limit.
 - **California State University** – Authorizes the State to pay only one-twelfth (1/12) of the CSU’s annual appropriation each month between July 2012 and April 2013. After April 2013, there are no limitations on payments within the CSU’s appropriations limit.
4. **Other Deferrals and Adjustments.**
- **California Community Colleges** – Authorizes the deferral of a \$150 million payment from July 2012 to December 2012. Authorizes the deferral of a \$50 million payment from September 2012 to January 2013. Authorizes the deferral of \$100 million from October 2012 to January 2013. Includes a hardship clause to exempt those community college districts that cannot raise funds to cover their necessary expenses during those time periods.
 - **California State University.** In addition to the payment smoothing, authorizes deferral of a \$250 million payment to the CSU with repayment mandated in April 2013.
5. **Authorize Cash Flow Borrowing from Additional Special Fund.** This bill adds one special fund to those eligible for cash flow borrowing. Most special funds are already eligible for cash flow borrowing, except where prohibited by the Constitution. The fund is the Litigation Deposit Fund.

Fiscal Effect: This bill continues a similar cash deferral schedule employed by the state in the last two years. This bill helps the state avoid insolvency and ensure that payments are made in a timely manner. This avoids significant future costs related to interest and damages that could be owed if the state failed to pay its bills. Furthermore, it also reduces the state’s external borrowing costs to a manageable level, thereby saving the state millions of dollars in borrowing costs.

This bill may have an unknown effect on the short term cash management costs of schools, colleges, and local governments.

Proposed Amendments: Proposed amendments would require the California Department of Education (CDE) to delay certification of final June apportionment payments for 2011-12 to account for additional RDA-related property tax remittances received through June 10, 2012. Because June apportionment payments are currently deferred until July, this change would delay certification of the second principal apportionment from July 2, 2012 to July 15, 2012.

In effect, these amendments would require CDE to count about two extra weeks of RDA-related property taxes that would offset state June apportionment payments, which are currently deferred until July. In counting these additional property taxes, the state can avoid costly overpayments.

Additional amendments would require that exempted local educational agencies (LEAs) receive the amount of funds necessary for the LEA to meet its financial obligations, regardless of whether that amount is greater than the LEA's June apportionment. (Under current law, LEAs exempted from the June-to-July deferral receive the lesser of (1) the amount of funds necessary for the LEA to meet its financial obligations or (2) the LEA's June apportionment, calculated based on CDE's P-2 certification.) Since other amendments require CDE to delay certification until July, updated apportionments for each LEA would not be available for use in reviewing deferral exemption requests. The amendments would allow the Superintendent and Director of Finance provide a deferral exemption without updated P-2 certification.

Support: Unknown.

Opposed: Unknown.

Comments: The state is currently facing a budget shortfall of around \$10 billion. It is likely that the official estimate of the budget shortfall will widen on May 14, 2012, when the Governor proposes the May Revision and updates his revenue forecast. Recent revenue trends have indicated that the state is on track to take in \$3 billion less than the Governor assumed in the January budget. Given this, the state is projected to continue to have months in which cash flow is constrained. The deferrals proposed in this bill help to alleviate the cash constraints and ensure state solvency.

Additional Proposed Amendments

AB 103

Proposed Amendments to AB 103 – May 3, 2012

Add:

“Uncodified Section X. For 2011-12 fiscal year, the Superintendent of Public Instruction shall delay the second principal apportionment calculated pursuant to Section 41335 of the Education Code from July 2, 2012 to July 15, 2012, to account for additional local property tax revenues remitted to school districts and county offices of education by county auditor-controllers pursuant to Section 34183 of the Health and Safety Code. No later than June 10, 2012, each county auditor-controller shall provide the Superintendent of Public Instruction with a report detailing the amount of additional property tax received by each school district and county office of education pursuant to Section 34183 of the Health and Safety Code on the forms prescribed by the Superintendent of Public Instruction.”

Add a new section:

14041.x

(a) Notwithstanding Section 14041.7 for the 2011-12 fiscal year only ~~Commencing with the 2010-11 fiscal year~~, up to one hundred million dollars (\$100,000,000) of the amount of the warrants for the principal apportionments for the month of June, that are instead to be drawn in July pursuant to Section 14041.5, may be drawn in June, subject to the approval of the Director of Finance, for a charter school or school district as follows:

(1) In order for a charter school to receive a payment in June pursuant to this section, the chartering authority, in consultation with the county superintendent of schools, shall certify to the Superintendent and the Director of Finance on or before April 1 that the deferral of warrants pursuant to Sections 14041.5 and 14041.6 will result in the charter school being unable to meet its financial obligations for June and shall provide the Superintendent an estimate of the amount of additional funds necessary for the charter school to meet its financial obligations for the month of June.

(2) In order for a school district to receive a payment in June pursuant to this section, the county superintendent of schools shall certify to the Superintendent and to the Director of Finance on or before April 1 that the deferral of warrants pursuant to Sections 14041.5 and 14041.6 will result in the school district being unable to meet its financial obligations for June and shall provide the Superintendent an estimate of the amount of additional funds necessary for the school district to meet its financial obligations for the month of June.

(3) The criteria, as applicable, set forth in statute and regulations to qualify a school district for an emergency apportionment shall be used to make the certification specified in paragraph (2).

(4) A charter school or school district may receive, pursuant to this section, no more than the lesser of the following:

~~—(A) The total amount of additional funds necessary for the charter school or school district to meet its financial obligations for the month of June, as reported to the Superintendent pursuant to paragraph (1) or (2).~~

~~(B) The total payments the charter school or school district is entitled to receive in July for the prior fiscal year.~~

(b) If the total amount requested by charter schools and school districts pursuant to paragraph (4) of subdivision (a) exceeds one hundred million dollars (\$100,000,000), the Controller, Treasurer, and Director of Finance may authorize additional payments to meet these requests, but total payments to charter schools and school districts pursuant to this section shall not exceed three hundred million dollars (\$300,000,000). No later than May 1, the Controller, Treasurer, and Director of Finance shall determine whether sufficient cash is available to make payments in excess of one hundred million dollars (\$100,000,000). In making the determination that cash is sufficient to make additional payments, in whole or in part, the Controller, Treasurer, and Director of Finance shall consider costs for state government, the scope of any identified cash shortage, timing, achievability, legislative direction, and the impact and hardship imposed on potentially affected programs, entities, and related public services. The Department of Finance shall notify the Joint Legislative Budget Committee within 10 days of this determination and identify the total amount of requests that will be paid.

(c) If the total amount of cash made available pursuant to subdivision (b) is less than the amount requested pursuant to paragraph (3) of subdivision (a), payments to charter schools and school districts shall be prioritized according to the date on which notification was provided to the Superintendent and the Department of Finance.

(d) Payments pursuant to this section shall be made no later than June 20.

(e) Except as provided in subdivisions (c) and (e) of Section 41202, for purposes of making the computations required by Section 8 of Article XVI of the California Constitution, the warrants drawn pursuant to subdivision (a) shall be deemed to be "General Fund revenues appropriated to school districts," as defined in subdivision

(c) of Section 41202, for the fiscal year in which the warrants are drawn and included within the "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B," as defined in subdivision (e) of Section 41202, for the fiscal year in which the warrants are drawn.