DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 01/04/2012 **BILL NUMBER:** AB 1191
POSITION: Neutral **AUTHOR:** Huber, Alyson

BILL SUMMARY: Local Government Finance: General Fund Reimbursement

This bill, an urgency measure, creates a formal process for cities and counties to seek state General Fund reimbursement when there are insufficient Educational Revenue Augmentation Fund (ERAF) monies and insufficient K-14 property tax revenues to fully backfill the sales and use tax revenue and Vehicle License Fee (VLF) revenue lost pursuant to the Triple-Flip and the VLF Swap.

FISCAL SUMMARY

This bill formalizes a process for cities and counties to receive reimbursement, upon legislative appropriation, for lost revenues associated with the Triple-Flip and the VLF Swap. We note that in 2010-11, there was a combined Triple-Flip and VLF Swap shortfall of $1.5 million in Amador County.

While this bill is coded as creating a state mandated local program, Finance notes the bill requires county auditor-controllers to provide neither a new nor a higher level of service to the public. Consequently, we do not believe any costs associated with this bill would be reimbursable. We also note the scope of the required activities is limited, and that any costs incurred by county auditor-controllers in relation to this bill should be minimal.

SUMMARY OF CHANGES

Amendments to this bill since our analysis of the January 4, 2012 version include a declaration of urgency, therefore causing this bill to take effect immediately. These amendments do not change our position on the bill.

COMMENTS

This bill creates a formal process for cities and counties to receive reimbursement for the VLF and sales and use tax revenues they lose due to the Triple-Flip and the VLF Swap, when there is insufficient ERAF and K-14 property tax revenues available to fully backfill those losses. Currently there is no such process in place, which is why the 2012-13 Governor's Budget proposes a $1.5 million appropriation to backfill the Triple-Flip and VLF Swap losses incurred in 2010-11 by Amador County.

ANALYSIS

1. Programmatic Analysis

   Chapter 211, Statutes of 2004 (SB 1096), enacted a mechanism known as the Triple-Flip to pay for the Economic Recovery Bonds (ERBs) issued pursuant to Proposition 57. The concept was to create a permanent revenue stream to repay the ERBs, thereby making them more attractive to purchasers and thus less costly to issue. The Triple-Flip works as follows:

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Department Deputy Director			Date
Governor's Office:	By:	Date:	Position Approved_______ Position Disapproved_______

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- Flip One – The state's share of the sales and use tax is increased by one-quarter cent. This revenue is used for ERB repayment.
- Flip Two – The city and county share of the sales and use tax is decreased by the one-quarter cent amount.
- Flip Three – City and county contributions to the Educational Revenue Augmentation Funds (ERAFs) are reduced in proportion to their lost sales and use tax revenue. The state General Fund then backfills on a dollar-for-dollar basis the ERAF revenues that otherwise would have gone to K-14 schools.

SB 1096 also created a mechanism known as the VLF Swap to permanently reimburse cities and counties for the revenue they lost when the VLF rate was reduced from 2 percent to 0.65 percent in 2003.

Beginning in 2004-05 county auditor-controllers were required to determine how much revenue each city and county lost due to the reduced VLF rate. The auditor-controllers then reduce city and county contributions to the ERAF by a corresponding amount. The state General Fund then backfills on a dollar-for-dollar basis the ERAF that otherwise would have gone to K-14 schools. If there is insufficient money in the ERAF to backfill the lost VLF, then base property tax revenue is redirected for this purpose from K-14 schools, provided those schools are not basic aid. Again, the state General Fund backfills any monies redirected from K-14 schools.

Basic aid schools are those that receive 100 percent of their revenue limit funding from local property taxes. Pursuant to existing law, property tax revenues may not be redirected from these schools. Consequently, in those counties where there is insufficient ERAF to backfill the Triple-Flip and VLF Swap, and where all or most of the schools are basic aid, the cities and counties will not be fully reimbursed for their lost sales and use tax and VLF revenues.

We note most school districts in Amador County were basic aid in 2010-11, and that there was insufficient ERAF to fully backfill the city and county Triple-Flip and VLF Swap costs. As a result, the 2012-13 Governor's Budget appropriates $1.5 million to reimburse Amador County, and the cities located therein, for their 2010-11 shortfalls.

This bill, an urgency measure, would provide for General Fund reimbursement of any city or county, beginning in 2012-13, when there is insufficient ERAF or non-basic aid K-14 property tax revenue to fully backfill its Triple-Flip and VLF Swap costs. Specifically, this bill would:

- Require the county auditor-controller to submit a claim to the State Controller for the total amount of the difference, which the Controller would review.
- Require the State Controller, upon appropriation by the Legislature, to deposit into the county's Sales and Use Tax Compensation Fund and Vehicle License Fee Property Tax Compensation Fund an amount sufficient to fully backfill city and county Triple-Flip and VLF Swap costs.
- Require the county auditor-controller, within 30 days of the Controller's deposit, to allocate the appropriate sums to the county and the cities.

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ANALYSIS (continued)

2. Fiscal Analysis

This bill formalizes a process for cities and counties to receive reimbursement, upon legislative appropriation, for lost revenues associated with the Triple-Flip and VLF Swap. We note that in 2010-11, there was a combined Triple-Flip and VLF Swap shortfall of $1.5 million in Amador County.

While this bill is coded as creating a state mandated local program, Finance notes the bill requires county auditor-controllers to provide neither a new nor a higher level of service to the public. Consequently, we do not believe any costs associated with this bill would be reimbursable. However, to the extent that a claim may be filed with and upheld by the Commission on State Mandates, unknown General Fund costs may be incurred to reimburse county auditor-controllers for the associated costs.

Since the scope of the required activities is limited, any costs incurred by county auditor-controllers in relation to this bill should be minimal.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Fund Code
				(Fiscal Impact by Fiscal Year) (Dollars in Thousands)					
9210/LocGovtFin	SO	No		----- See Fiscal Analysis -----					0001