

# Assembly Budget Subcommittee #5

## Optional Notes and Additional Background Information

### On Governor's Proposed Budget-Balancing Reductions

BBR Page #	Department	Title
NA	Caltrans	Delay Gas Tax Disbursements to Locals

- ◆ The Governor proposes to delay the monthly gas excise tax disbursements to local governments for the months of April through August to be paid along with the regular September disbursement.
- ◆ The Governor has proposed several actions to address the state's severe cash shortage that is projected between now and the end of summer. These proposals total about \$8.7 billion, with \$3.3 billion coming from the sale of Economic Recovery Bonds to get the state through the month of March, and about \$4.7 billion of various delays in disbursements to ensure adequate cash balances in the months of July and August. The local gas tax disbursement is \$500 million of this amount.
- ◆ Gas excise tax are deposited in the State Highway Account and are limited for transportation related purposes as specified in by Article IXX of the California Constitution. The revenues are, however, a borrowable resource for the General Fund to assist cash flow.
- ◆ While the delaying of the disbursements may cause some hardships for some cities or counties, there are similar challenges for all of the proposed delays. However, such hardships pale in comparison to the potential damage to the state (including local governments) should the state run out of cash and be unable to make debt payments, meet payroll, or avoid other catastrophic consequences.
- ◆ It is also important to note a couple of other things.
  - First, this is the only fiscal emergency budget proposal for transportation. So while all other areas of the budget have severe cut proposals, the only impact for transportation is a temporary delay of disbursements, but no actual cuts.
  - Second, while locals may see some challenges with this proposal, cities and counties are netting over \$1 billion from the VLF backfill. Based on the way Proposition 1A was drafted, the locals are required to receive over \$6.1 billion from the state to "backfill" their

loss of VLF funds. However, if the VLF were still in place, the locals would receive less than \$5 billion. As a result, locals are getting an extra \$1.1 billion from the state (a full 10% of the state's operating deficit) that can be used to mitigate any hardships that the gas tax delay may cause.

- ◆ This is an informational hearing, with the purpose of hearing from the Administration on the proposal, getting the Legislative Analysts initial assessment, and hearing any initial concerns from affected entities or members of the public. Any alternatives or adjustments, if any, will be heard and considered at future meetings.