MUNISERVICES
GOVERNMENT RELATIONS

POLICY UPDATE

August 6, 2015

DOF CONFIRMS PAY-OFF OF ECONOMIC RECOVERY BONDS AND END TO THE TRIPLE FLIP

In a landmark announcement, staff from the California Department of Finance (DOF) announced that the long-awaited "defeasance" date for the Economic Recovery Bonds has finally arrived. A press conference on August 5, 2015 signified the official announcement to alert the California State Board of Equalization (BOE) and the public, and to initiate the State's Triple Flip "unwinding" process.

> *"More than a decade ago, desperation coupled with fiscal shortsightedness caused Sacramento lawmakers to pass a budget relying heavily on borrowing from the next generation of Californians. To the tune of over $19 billion, Californians since 2004 have endured haircuts on critical public services in order to payoff that debt," said State Treasurer, John Chiang. "With today's final payment, the 2004 Budget is finally balanced and closed. Importantly, may we never forget the folly of living outside of our means by turning to costly, long-term debt to finance short-lived benefits."* The full news release from the State Treasurer's Office can be found at: http://sto.ca.gov/news/releases/2015/20150805.asp

Anticipated Wind Down Milestones

- **Immediate action:** BOE has **90 days** to return to the 1% local tax rate, but can only return to 1% on the **1st of the 1st month of a calendar quarter**; the earliest date the BOE can return to the 1% local tax rate then becomes **January 1, 2016**
- **First 1% allocation:** 1st advance portion of the **March 2016** payment
- Calculating the in-lieu of sales tax: The BOE will calculate the property tax in-lieu of sales tax in **January and May 2016** along with true ups and administrative fees covering **FY 2014-2015**
- **Property tax in lieu revenues:** Provided via the respective County as per current procedures for receipt of the property tax in lieu of sales tax process
- **Final true-up:** The State will need to make one final true-up after the end of the FY 2015-2016 **(June 2016)**. This final true-up payment will be sent through the county Sales and Use Tax Compensation Funds, and not directly to cities and counties. County Auditors will then disburse the final payments from the Fund.

Background

The Triple Flip (Chapter 162, Statutes of 2003, and Chapter 13, Statutes of 2003 Extraordinary Session) became effective July 1, 2004.

- **First flip:** Beginning July 1, 2004, one-quarter cent of the local one-cent sales tax enacted by cities and counties throughout the State would be repealed.
- **Second flip:** The State enacted a new, dedicated one-quarter cent sales tax to repaying the deficit reduction bonds.
- **Third flip:** This flip was a promise by the State to backfill the lost local revenues. This backfill payment was called sales tax in-lieu. The distributions were made by each county to the jurisdiction within its county.

On December 12, 2003 the California Economic Recovery Act was signed (Chapter 2, Statutes of 2003 Extraordinary Session) and reduced the amounts proposed under the Triple Flip. *The amount to guarantee the debt was changed from one-half cent to one-quarter cent.* The new law also "created" Proposition 57 (the Governor's bond measure) for the March 2004 ballot. The total amount of debt authorized issued under Proposition 57 was $15 billion (they went beyond the 10.7 in a subsequent budget act). This allowed the State to sell the deficit financing bonds and use a one-half cent tax reallocated from local sales tax revenues to repay the debt with a dedicated revenue source.

In 2013 the Governor approved a budget trailer bill (Chapter 26, Statutes of 2013) that prepared for the end of the Triple Flip by outlining a process to provide final compensation to cities and counties for their 0.25% local sales and use tax revenue loss after the ERBs are paid-off.

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