

ASSEMBLY THIRD READING

AB 323 (Daly, et al.)

As Amended April 2, 2019

Majority vote

SUMMARY:

Creates the Disaster Preparedness Account in the State Treasury.

Major Provisions

- 1) Establishes a new account, the Disaster Preparedness Account
- 2) States in finding and declarations that establishing the Disaster Preparedness Account will allow the State to prepare for future natural disasters in advance of a recession, thus eliminating concerns that immediate assistance will not be as readily available during an economic downturn.

COMMENTS:

On February 5, 2019, the Legislative Analyst's Office released a report entitled "Structuring the Budget: Reserves, Debt and Liabilities." This report included a discussion regarding the two major threats to the state budget, declines in revenues due to an economic downturn, and unexpected events, mostly disasters like the Loma Prieta Earthquake of 1989, that could impact the State budget.

Currently, the State's reserve, the Special Fund for Economic Uncertainties (SFEU), is used as the source of funding for both contingencies. The Legislature passed AB 73 (Budget), Chapter 2, Statutes of 2019 that allows the Director of Finance to transfer funds from the SFEU for expenditures related to a declared emergency. Often a large portion of these State funds are later reimbursed by the federal government, although this reimbursement can take months or even years to occur.

Given the State's current strong fiscal position, the SFEU is likely robust enough to address both contingencies in 2020. However, as climate change has increased the scope and frequency of disasters and the federal government's reimbursements have become less reliable, it has raised questions as to whether the size of the SFEU is sufficient to address both an economic slowdown and the response to a natural disaster.

Additionally, during an economic downturn, the prolonged delay in reimbursement by the federal government for disaster expenses could strain the State's cash position. For decades, California relied on expensive short-term commercial borrowing to meet cash flow needs due to the timing of state revenues. Recently, the Budget Stabilization Account has created a buffer to eliminate this borrowing, but that buffer will likely not exist if that account is exhausted in an economic downturn. Better planning for disaster costs and reimbursements would help the State manage cash flow in leaner times.

The goal of this bill is to establish a dedicated account to monitor for state disaster costs and offsetting federal reimbursements to make sure sufficient funds are set aside for this purpose. This bill would be coupled with budget bill language to direct the inflow and outflow of funding for disaster costs through this fund in 2020-21 and beyond. This accounting change would allow

the Legislature to easily monitor these costs, so that discussions can continue regarding the overall size of California's budget reserves, the impact on the State's cash flow, and how these reserves should be structured and scoped to address the two major budgetary risks.

According to the Author:

Arguments in Support:

None on file.

Arguments in Opposition:

None on file.

FISCAL COMMENTS:

This bill will have no cost, but will allow the State to better track the expenditure patterns of disaster funding.

VOTES:

ASM BUDGET: 28-0-3

YES: Ting, Obernolte, Bloom, Brough, Chiu, Cooper, Fong, Frazier, Gallagher, Cristina Garcia, Jones-Sawyer, Lackey, Limón, Mathis, McCarty, Medina, Melendez, Mullin, Muratsuchi, Nazarian, O'Donnell, Patterson, Ramos, Luz Rivas, Mark Stone, Weber, Wicks, Wood

ABS, ABST OR NV: Arambula, Reyes, Blanca Rubio

UPDATED:

VERSION: April 2, 2019

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