HdL COMPANIES

Issue Update
March 2015

Triple Flip Unwind

BACKGROUND

In March 2004, California voters approved Proposition 57, the California Economic Recovery Bond Act. The legislation authorized the issuance of $15 billion in "Economic Recovery Bonds" to close the State's operating budget deficit.

As a result, the Bradley-Burns local sales tax rate was decreased from 1 percent to 0.75 percent on July 1, 2004 and the diverted 0.25 percent rate was pledged to repay the newly issued Economic Recovery Bonds. The State then directed that counties reimburse local governments for the 0.25 percent loss with Sales Tax In-Lieu from the Educational Revenue Augmentation Fund (ERAF), originally set up for schools. Consequently, schools would be reimbursed for the ERAF loss from the State General Fund. The funding scheme became known as the "Triple Flip".

TRIPLE FLIP UNWIND PROCESS

The Governor's FY 2014-15 state budget includes a supplemental payment of $1.6 billion that will allow the 2004 Economic Recovery Bonds to be paid off earlier than originally planned. The state's current estimate for retiring the bonds is July 2015, although this date could change. The timeline below outlines the Triple Flip unwind process based on a July 2015 payoff date.

EXPECTED SCHEDULE

July 2015	Bonds paid off
September 2015	Department of Finance (DOF) and Board of Equalization (BOE) will estimate Sales Use Tax Compensation Fund (SUTCF) amounts to be paid from the Educational Revenue Augmentation Fund (ERAF) and provide estimates to County Auditor-Controllers, which will include: - Fiscal Year 2014-15 Triple Flip True Up - Advance amount for the Second Quarter (2Q) 2015 (¼ of annual estimate)
January 2016	County Auditor-Controllers will disburse one-half of SUTCF estimate
May 2016	County Auditor-Controllers will disburse remaining SUTCF estimate
May 2016	DOF and BOE will calculate final payment from State Fiscal Recovery Fund (to be disbursed via County SUTCF) that will include: - Second Quarter 2015 Triple Flip True Up - Payment of actual Triple Flip withholding from Third Quarter (3Q) 2015 - Payment of actual Triple Flip withholding from Fourth Quarter (4Q) 2015
June – Aug 2016	Final disbursement from County Auditor-Controllers based on May calculation

Based on our review of historical annual Triple Flip reconciliations, all past takeaways have been properly trued up and no additional amounts are due to local/county agencies.

Starting with monthly advances in March 2016 (representing sales activity starting January 1, 2016) and thereafter, Bradley-Burns allocations will revert back to the original 1% amount. <u>Due to the increase in monthly cash flow, many agencies are likely to experience a one-time bump in recorded accrued revenues for the 2015-16 fiscal year when compared to the 2014-15 fiscal year.</u>

HdL is committed to ensuring its' clients have all the information necessary to accurately determine the impacts of the Triple Flip unwind process and will provide agency specific information with the quarterly reports. In the interim, if there are other questions, feel free to contact Bobby Young byoung@hdlcompanies.com or Sheri Peasley speasley@hdlcompanies.com at 909.861.4335.