

AMENDED IN SENATE MAY 19, 2011
AMENDED IN SENATE MAY 17, 2011
AMENDED IN SENATE APRIL 26, 2011
AMENDED IN SENATE APRIL 25, 2011
AMENDED IN SENATE APRIL 7, 2011
AMENDED IN SENATE MARCH 30, 2011

SENATE BILL

No. 449

Introduced by Senator Pavley

February 16, 2011

An act to add and repeal Article 6 (commencing with Section 12485) of Chapter 5 of Part 2 of Division 3 of Title 2 of the Government Code, relating to state government.

LEGISLATIVE COUNSEL'S DIGEST

SB 449, as amended, Pavley. Controller: local agency financial review.

Existing law requires certain local agencies to furnish reports to the Controller concerning financial transactions of the local agency, subject to uniform accounting and reporting procedures prescribed by the Controller. The Controller may provide for the investigation of certain local agency finances if a report is not made in the time, form, and manner required or there is reason to believe that a report is false, incomplete, or incorrect.

This bill would additionally authorize the Controller, *if the Controller determines that sufficient funds are made available*, to conduct a preliminary review to determine the existence of a local agency financial

problem, and perform an audit upon completion of that review, subject to specified criteria.

The bill would require the Controller, *if the controller determines that sufficient funds are made available*, to convene a local agency financial review committee with a specified membership, and authorize the committee to recommend a financial recovery plan for a local agency requesting assistance. It would require the Controller to report to the Legislature annually on the actions of the committee and the status of all engagements with local agencies pursuant to these provisions.

The bill would specify that its provisions would be repealed on January 1, 2017.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. (a) The Legislature finds all of the following:
2 (1) The economic recession has disproportionately affected
3 California and, in particular, the local agencies that deliver vital
4 services to the public. Many local agencies have been forced to
5 take unprecedented steps to avert financial crisis and maintain a
6 sound credit rating.
7 (2) The State of California has a vital financial interest in the
8 solvency of its local agencies. When insolvency occurs at a local
9 agency, the municipal credit in the state can be negatively
10 impacted, costing the state and local governments millions of
11 dollars, making borrowing more difficult, and hindering the state's
12 economic recovery.
13 (3) The health and welfare of the citizens of the state would be
14 adversely affected by the insolvency of local agencies. Therefore,
15 the fiscal health of local agencies is vitally necessary to the interests
16 of this state in providing necessary governmental services.
17 (b) Accordingly, the Legislature declares that it is a valid public
18 purpose for the state to assist a local agency in a fiscal emergency
19 to avert or manage financial problems as defined in this act, and
20 that the authority and powers conferred by this act constitute a
21 necessary program and serve a valid public purpose.
22 SEC. 2. Article 6 (commencing with Section 12485) is added
23 to Chapter 5 of Part 2 of Division 3 of Title 2 of the Government
24 Code, to read:

Article 6. Local Agency Financial Review and Assistance

12485. (a) The Controller may conduct a preliminary review to determine the existence of a local agency financial problem if *the Controller determines that sufficient funds are made available to conduct the preliminary review and one of the following occur* occurs:

(1) (A) The governing body, chief administrative officer, or chief executive of a local agency requests a preliminary review under this section. The request shall be in writing and shall identify the existing fiscal conditions that make the request necessary.

(B) If the local agency requests a review, any costs incurred pursuant to this paragraph shall be borne by the local agency.

(2) (A) The Controller receives a written request from a creditor with an undisputed claim against the local agency that exceeds the greater of ten thousand dollars (\$10,000) or 1 percent of the annual general fund budget of the local agency, and that remains unpaid six months after its due date, provided that no less than 30 days prior to submitting the request, the creditor notifies the local agency in writing of his or her intention to submit the request.

(B) For purposes of this subdivision, a claim shall be deemed undisputed unless the local agency has made a determination that any of the following conditions are present:

(i) There is a discrepancy between the invoice or claimed amount and the provisions of the contract or grant.

(ii) There is a discrepancy between the invoice or claimed amount and either the claimant's actual delivery of property or services to the local agency or the local agency's acceptance of that delivery or deliveries.

(iii) Additional evidence supporting the validity of the invoice or claimed amount is required to be provided to the local agency by the claimant.

(iv) The invoice has been improperly executed or needs to be corrected by the claimant.

(v) There is a discrepancy between the refund or other payment due as calculated by the person to whom the money is owed and by the local agency.

(3) The Controller receives notification from the trustee, actuary, or at least 10 percent of the beneficiaries of a local agency pension fund alleging that the local agency has not timely deposited its

1 minimum obligation payment to the pension fund as required by
2 law.

3 (4) The Controller receives notification from a trustee, paying
4 agent, or bondholder of a default in a bond payment, or a violation
5 of one or more bond covenants, by a local agency.

6 (b) The Controller may conduct a preliminary review to
7 determine the existence of a local agency financial problem if *the*
8 *Controller determines that sufficient funds are made available to*
9 *conduct the preliminary review and* two or more of the following
10 occur:

11 (1) The Controller receives notification that employees of the
12 local agency have not been paid and it has been at least seven days
13 after the scheduled date of payment.

14 (2) The Controller receives notification that the local agency is
15 delinquent in the distribution of tax revenues as required by law.

16 (3) The Controller receives notification that a local agency has
17 implemented retirements and layoffs constituting greater than 20
18 percent of the local agency's workforce, relative to the prior year
19 budget.

20 (4) The Controller receives notification that a local agency has
21 reduced its ~~police~~ *public safety* or fire services funding by more
22 than 50 percent, relative to the prior year budget.

23 (c) The Controller may conduct a preliminary review to
24 determine the existence of a local agency financial problem if *the*
25 *Controller determines that sufficient funds are made available to*
26 *conduct the preliminary review and* three or more of the following
27 occur:

28 (1) The Controller receives notification that the local agency
29 has a critical cashflow situation, evidenced by a midyear borrowing
30 not anticipated in the most recently enacted budget.

31 (2) The Controller receives notification that a local agency has
32 enacted a midyear budget correction *exceeding 20 percent of the*
33 *enacted budget*.

34 (3) The Controller receives notification that a local agency has
35 had a decline in year-over-year general fund collections of greater
36 than 15 percent.

37 (4) The Controller receives notification that a local agency has
38 had deficits in one or more major restricted funds, defined as
39 providing greater than 10 percent of the local agency's annual total
40 budget, for a period exceeding a fiscal year.

1 (5) The local agency fails to provide an annual financial report
2 or audit that conforms with the minimum procedures and standards
3 of the Controller as required by law.

4 (d) In conducting a preliminary review pursuant to this section,
5 the Controller shall provide the local agency written notification
6 of the review, and shall meet with the local agency officials to
7 receive, discuss, and consider information provided by the local
8 agency concerning the agency's financial condition.

9 (e) The Controller shall provide written notification to the
10 Governor and the Legislature within 120 days after beginning a
11 preliminary review pursuant to this section, ~~when if~~ the review has
12 determined that one or more conditions indicative of a serious
13 ~~financial problem may exist within the local agency.~~ *financial*
14 *problem, as described in Section 12486, exist within the local*
15 *agency.*

16 (f) When conducting a preliminary review, the Controller shall
17 give priority consideration to preliminary reviews conducted
18 pursuant to subdivision (a) over subdivisions (b) and (c). The
19 Controller shall further give priority consideration to preliminary
20 reviews conducted pursuant to subdivision (b) over subdivision
21 (c).

22 12486. (a) The Controller may conduct an audit of the local
23 agency for purposes of determining if *the controller determines*
24 *that sufficient funds are made available to conduct the preliminary*
25 *review and* one or more of the following conditions indicative of
26 a serious financial problem have occurred, or are likely to occur,
27 if remedial action is not taken:

28 (1) A default in the payment of principal or interest upon bonded
29 indebtedness for which no funds, or insufficient funds, are on hand
30 and segregated in a special trust fund.

31 (2) Failure for a period of 30 days or more beyond the due date
32 to transfer one or more of the following to the appropriate agency:

33 (A) Taxes withheld on the income of employees.

34 (B) Taxes collected by the local agency as agent for another
35 governmental entity or taxing authority.

36 (C) Any contribution required by a pension, retirement, or
37 benefit plan.

38 (3) Failure for a period of 30 days or more to pay wages and
39 salaries or other compensation or benefits owed to local agency
40 employees or retirees.

(4) The total amount of accounts payable for the current fiscal year, as determined by the financial records of the local agency, is in excess of 10 percent of the total expenditures of the local agency in that fiscal year.

(5) Failure to eliminate an existing deficit in any fund of the local agency within the two-year period preceding the end of the local agency's fiscal year for which a preliminary review was conducted pursuant to Section 12485.

(6) Projection of a deficit in the general fund of the local agency for the current fiscal year in excess of 10 percent of the budgeted revenues for the general fund.

(b) (1) The governing body, chief administrative officer, or chief executive of a local agency may request an audit under this section. The request shall be in writing and shall identify the existing fiscal conditions that make the request necessary.

(2) If the local agency requests a review, any costs incurred pursuant to this section shall be borne by the local agency.

(c) The local agency shall make its books and records available to the Controller for this purpose.

(d) In conducting an audit pursuant to this section, the Controller shall provide the local agency written notification of the audit, and shall meet with the local agency officials to receive, discuss, and consider information provided by the local agency concerning the agency's financial condition.

(e) The Controller shall give priority consideration to conducting an audit of local agencies that meet the conditions pursuant to this section, over local agencies that only meet the conditions for a preliminary review pursuant to Section 12485.

(f) If an audit conducted pursuant to this section finds that one or more conditions indicative of a serious financial problem may exist within a local agency, the Controller shall provide written notification to the Governor and the Legislature within 120 days after beginning that audit.

12487. (a) ~~The Controller~~ *If the Controller determines that sufficient funds are made available, the controller shall convene a local agency financial review committee to provide assistance to local agencies that seek help in averting or managing a financial problem. The committee shall meet no less than annually. Assistance provided pursuant to this section shall not include direct*

1 financial payments or loans to local agencies that are not otherwise
2 authorized by statute.

3 (b) The committee shall be chaired by the Controller and include
4 representatives of the office of the Treasurer and the Department
5 of Finance.

6 (c) The Controller shall utilize the services of a consultant
7 having extensive financial management and accounting experience
8 with local agencies in the state, to assist in evaluating and assisting
9 local agencies that are undergoing or facing a financial problem.

10 (d) A local agency may request assistance from the committee
11 in meeting the ordinary needs of government operations. The
12 request shall identify the existing financial conditions that make
13 the request necessary.

14 (e) A local agency that is subject to a preliminary review
15 pursuant to Section 12485, or an audit pursuant to Section 12486,
16 shall receive priority consideration by the local agency financial
17 review committee.

18 (f) In consultation with the local agency requesting assistance,
19 and using any applicable data from a preliminary review or audit
20 conducted pursuant to this article if a preliminary review or audit
21 has occurred, the committee shall recommend a financial recovery
22 plan for the local agency. The financial recovery plan shall consider
23 both of the following:

24 (1) Conducting the operations of the local agency within the
25 resources available according to the data provided by the local
26 agency.

27 (2) The payment in full of the scheduled debt service
28 requirements on all bonded and other indebtedness and other
29 uncontested legal obligations of the local agency.

30 (g) The Controller shall report to the Legislature, no later than
31 June 30, 2012, and annually thereafter, on the actions of the
32 committee and status of all engagements with local agencies
33 pursuant to this section.

34 12488. For purposes of this article, "local agency" means a
35 city, county, city and county, special district, or redevelopment
36 agency.

1 12489. This article shall remain in effect only until January 1,
2 2017, and as of that date is repealed, unless a later enacted statute,
3 that is enacted before January 1, 2017, deletes or extends that date.

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