
CALIFORNIA BUDGET REPORT

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THE STATE BUDGET PASSES!

VOTERS YAWN DESPITE \$5 BILLION SHORTFALL FOR NEXT YEAR

NEXT: THE NOVEMBER SPECIAL ELECTION

The Legislature passed the 2005-2006 budget today along with a pile of trailer bills. The Governor will sign the bills later this week or early next week. Here is the fast listing of the measures:

Budget Bill: SB 77

This is the final version of the budget. As this *California Budget Report* is being written, the precise language is not available on the legislative web site, but the broad terms of the settlement have been described by the media. When the Legislative Analyst posts her detailed review of the budget, we will forward it to you.

In the meantime, most reporters on the beat would say that the budget has the following elements:

- No new taxes. The Governor wins.
- The Governor's proposal to fund K-12 education was accepted. Schools got \$3 billion more than this year, but about \$2 billion to \$3 billion less than "promised" to them last year by the Governor. The Governor "wins," but Democrats get agreement from the California Teachers Association they will not be punished for letting the Governor win.
- \$1.3 billion goes to transportation. The Governor wins, but Democrats don't complain too much, since everyone likes to spend money on transportation.

- The Governor and legislative Democrats cut the difference on the remaining issues (about \$1 billion in dispute):
 - ✓ *Democrats agree to “pre pay” Vehicle License Fee money due to cities and counties. The Governor wins this one!* (For those who can’t remember what this is about, remember, the VLF money goes to local governments, but the state reduced the level of the VLF (voters said that was great!). Lowering the VLF means local governments get less money so state agrees to make up the loss!!!!)
 - ✓ *The Governor agrees to drop his proposal to cut state employee salaries and benefits by \$408 million. Democrats win, but there are unspecified reductions in state spending assumed (most of which never work).*
 - ✓ *The Governor and the Democrats agree to shift half of the state costs for teacher’s retirement to local districts (about half of the original proposed shift of \$469 million). The Governor and Democrats each win some and lose some on this issue.*
 - ✓ *The Governor and Democrats agree to give a raise to in-home healthcare workers, but deny COLA for two years to aged, blind and disabled. This is another “split the difference” deal between the Governor and Democrats.*

Budget Trailer Bills

Please note that there are Senate and Assembly versions of each of the trailer bills. For your convenience, we have indicated the corresponding Senate version in parentheses after each of the Assembly versions.

AB 127 (SB 62)	Transportation
AB 128 (SB 63)	Education
AB 129 (SB 64)	Boards/Commissions
AB 131 (SB 66)	Health
AB 133 (SB 68)	Social Services
AB 136 (SB 71)	Resources
AB 138 (SB 73)	Mandates
AB 139 (SB 74)	General Government
AB 141 (SB 76)	Hydrogen Highway
AB 145 (SB 81)	Uniform civil filing fees
AB 142 (SB 78)	Supplemental appropriation #3
SB 91 (AB 79)	Supplemental appropriations #2

What's the overall message of the budget vote?

Well, it's over, done with! That's the primary message. Not something to wave the flag about, but in legislative terms, a modest achievement. Most observers of Capitol politics believe that the Governor, legislative Democrats and, eventually, legislative Republicans concluded that holding out on the budget was not popular with the California public, no matter what issue drove the delay.

A set of negative polls showing the Governor's popularity was dropping like a rock, and the less-mentioned result that voters cared even less for the Legislature, was the final kick in the pants needed to get the job done.

Unlike earlier budget drills, the budget bills were not 41-speech bills. Senator Tom McClintock gave a strong speech in opposition to the budget, noting that there will be a 2006-2007 shortfall of approximately \$5 billion to \$6 billion. That's true, but the size of the state budget shortfall is and has been falling for the past few years. A decline from a shortfall of \$38 billion in 2001 to the present \$6 billion shortfall is a big drop.

However, the reduction is primarily attributable to the growth in the economy, and only secondarily to decisions to cut spending. This is probably the McClintock message: we got through another budget year by avoiding really tough decisions, either for cuts or taxes. Any contraction in the economy will provoke another big crises and another yawning gap between revenues and expenditures.

The November Special Election

All of this takes us to the pending November 2005 Special Election. Readers of *California Budget Report* know that there are eight measures currently qualified for the ballot. We have attached the Secretary of State's press release assigning ballot numbers to each, but list them here:

Proposition 73	Termination of minor's pregnancy. Notification of parents
Proposition 74	Public school teachers waiting period of permanent status
Proposition 75	Public Employees Union Dues. Political contributions
Proposition 76	School Funding/State Spending. Governor's "Live within Our Means" proposal
Proposition 77	Reapportionment
Proposition 78	Prescription drug discounts
Proposition 79	Prescription drug discounts/state negotiated rebates
Proposition 80	Electrical regulation

We urge all of our readers to skim this list, then read the Secretary of State's longer summary. We also encourage you to read all the measures, and not just the title and summary nor the press releases issued by every politician and organization in California arguing the pros and cons. If you do not read the measures, you will never understand the complexity of the range of decisions facing California voters—assuming any of them read the measures prior to voting.

We also note that litigation is pending on Proposition 79 (the labor/consumer version of drug pricing control) and Proposition 80 (the labor/consumer proposal to “re-regulate” the energy companies of California). Also, earlier this week, Attorney General Bill Lockyer indicated he is looking at a legal error in the reapportionment measure—basically a difference between the version of the measure approved for circulation and the description presented to those who signed the measure. This suggests the Attorney General may seek to remove reapportionment from the ballot and touch off an interesting political war with the Governor.

Once again, California voters will “take control” of their government. We will not predict at this point which measures will pass or fail. It is far too soon, in our opinion, to have an intelligent answer to that question. We do know, however, that the November Special Election is something like Act One of the 2006 Governor’s race.

Stay tuned!

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