
CALIFORNIA BUDGET REPORT

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BLUSTER, BALLOT BOXES AND BUDGETING

Here we are a few steps into May and the Sacramento political establishment is spending most of its time thinking about a potential November special election. Very little work is being done on the budget. Should we worry?

Nah! Not to worry. Everything is under control. The 2005-2006 budget could be wrapped up in about 15 minutes if the gang put their collective heads together. All it takes is a little imagination. After all, the "shortfall" is only \$8 billion or so. Revenues have gone up, there is a big surprise of about \$2 billion to \$3 billion from the tax amnesty program, and lots of ways to borrow more money (or defer payment of debts) from internal sources. Sure this approach just papers over the budget problem. So what? Voters don't seem to care. Take a look at the PPIC poll discussed in this report. Californians still think they can get it for free!

We have to be absolutely honest: most politicians, Republican or Democrats, are not paying much attention to the budget. First, they are busy running around the Capitol taking up their bills in seven different committees while trying to listen to debates on their colleagues' bills in another four committees. Second, they know that the "real stuff" may be the subject of a special election in November of this year. Until the boundaries of that fight are known, and until they look at the Governor's May Revision to the Budget (set for release May 13), they will continue to keep themselves busy with other things.

To summarize: Lots of bombastic rhetoric. Most of the political chattering class is paying attention to the pending election and ballot measures. Next year's budget just can't compete with bluster and ballot box.

So let's talk about the pending election.

The Governor, his reforms and what has happened since January

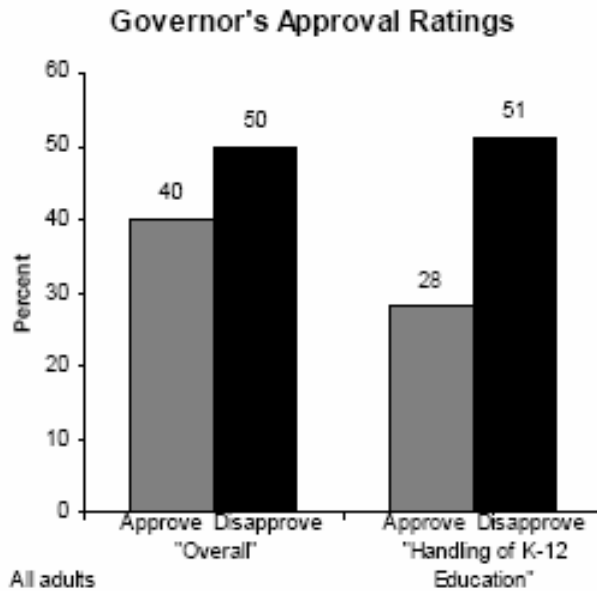
Our readers will remember that Governor Schwarzenegger announced early this year that big reforms were in the works, and that he was going to call a special election to continue to make changes in state government. We have listed each of the reforms proposed in the Governor's State of the State address—and added a note about their current status:

- **Reapportionment reform.** Yes, this idea is still alive. However, Congressional and state legislative Republicans are agitated and the current “conventional wisdom” is that the Governor will not insist that the reform take effect until 2008 or 2010. It is possible that a compromise between the Governor and Democrats in the Legislature that would place a measure on the 2008 or 2010 ballot may be achieved. At this point in the political soap opera, it would appear that Senate President pro Tempore Don Perata may be able to court the Governor on this one.
- **Balanced budget proposals.** The Chamber of Commerce and the Business Roundtable lead a coalition supporting the Governor’s “Live Within Our Means” initiative. A compromise version was drafted by Chamber President Allan Zarembeg and Roundtable exec Bill Hauck, signatures are being gathered if not finalized as we write this memo, and most folks expect this proposal to be on the next statewide ballot.
- **Cuts in state employee pensions.** This is dead, dead, dead! The Governor wanted to substitute a defined benefit plan for all new state employees. But whoever drafted the ballot measure didn’t think through every wrinkle or vet it properly with lawyers who live these issues because the language failed to protect death and disability benefits. The hue and cry from the law enforcement and public safety sectors, whose widows and wounded veterans came to the Capitol to protest, was enough to get Schwarzenegger to withdraw the measure and either find a compromise with the Legislature (unlikely) or go back to the drawing board next year.
- **Teacher’s Merit Pay.** Another big part of the Governor’s playbook has faded from view. After the long television assault against the Governor by the California Teachers Association, and much attention paid to the fact that even the non-partisan PTA is mad about his budget proposals relating to Proposition 98 funding, the Governor has decided to drop his idea of establishing a merit pay system for teachers. Instead, some fuzzy legislative proposal about “combat pay” for teachers is being discussed, perhaps adding a couple of additional years you have to teach in order to get tenure.

From this short summary, you can see that the Governor has backed away considerably from some of his State of the State reforms. Much of the retreat is attributable to the combined assault of the teachers union, public employees and Democratic officeholders. But one cannot discount errors in drafting, packaging and perhaps polling as factors in the Governor’s recognition that he needed to regroup.

Current political polls show the Governor suffering a serious drop in popularity. The Public Policy Institute of California survey last month was telling.

For full details see http://www.ppic.org/content/pubs/S_405MBS.pdf



The PPIC poll also showed that the Governor's popularity remains high with Republicans, but he is in serious trouble with both Democrats and Independents. Take a look at the following:

"Do you approve or disapprove of the way that Arnold Schwarzenegger is handling his job as governor of California?"

	All Adults	Party Registration			Race/Ethnicity				Likely Voters
		Dem	Rep	Ind	Asians	Blacks	Latinos	Whites	
Approve	40%	24%	71%	40%	46%	20%	25%	50%	45%
Disapprove	50	68	20	49	34	72	69	40	47
Don't know	10	8	9	11	20	8	6	10	8

All this commotion and political fighting has been wonderful for the media. They like nothing better than a good, expensive fight between powerful political forces. For a good example of the current media slant on the Governor, take a look at the article by Mark Barabak, appearing in Washington Monthly. We have attached a copy to this CBR.

If there is a special election ...

As the weeks pass, there is a reasonable chance there will be no special election this year. Don't bet your house on this, but we certainly bet a lunch on it. There are four pertinent facts to remember:

First, the Secretary of State has told those who want to have propositions placed on a November ballot to submit their signatures for verification by this Friday, May 6.

Second, the Governor claims that he can wait until June 10 to decide if there will be a special election this year.

Third, if he decides **not** to call a special election, all of the ballot measures will be on the June 2006 Primary Election ballot.

Fourth, even if a ballot measure qualifies, there is always the possibility the Governor and Legislature could cut a deal and adopt legislation that does something of the same thing, undercutting the need for the ballot measure, similar to the “local government” compromise of 2004.

There may well be one of those last-minute compromises that politicians love to hail as major achievements. The Governor could be persuaded to drop the idea of a special election in exchange for a deal on redistricting reform. He could sweeten the thing by (privately) agreeing to oppose some ballot measures, like parental consent (see below), and Democrats in the Legislature might agree to some modified form of change in teacher tenure, and maybe, a modified version of the Governor’s drug pricing legislation.

Some other ballot measures that will roil the waters

We previously reported that 80 ballot measures were eligible for circulation, although only a few of these had a big political push behind them. In the next few weeks, the broad outlines of the next election, special or regular, will appear. There are some hot-button issues you should remember. The Governor has yet to take a position on any of these proposals. You can find full details on all potential ballot measures at the Secretary of State’s web page, http://www.ss.ca.gov/elections/elections_j.htm#pending

Parental consent for abortions performed on minors: Sponsors of this measure have submitted signatures for verification and expect it to be on the next statewide ballot.

Restrictions on use of union dues for political purposes: Anti-tax crusader Lewis Uhler announced that this effort has produced about 600,000 signatures (about 400,000 valid signatures are required). Business and Republican groups believe the most effective way to pursue their agenda is to restrict the campaign contributions of organized labor. Expect a major political battle on this one.

The drug price wars: There are several measures in circulation that would attempt to control drug prices or reduce prices to certain populations. Expect competing measures sponsored by the drug companies and the consumer and labor coalition to qualify.

Contingency fee limits: The pharmaceutical manufacturers raised a war chest to go to battle with their enemies in the trial bar over contingency fees. Private negotiations between the drug companies and trial lawyers led to a partial compromise on this issue.

Limits on teacher tenure: This is the only part of the Governor’s merit pay plan that has survived. Press reports this week have the sponsors announcing they will submit signatures for verification soon.

Meanwhile back in the Capitol . . .

We remarked in the beginning of this missive that very little work was being done on the 2005-2006 budget right now. That was a little, um, hyperbolic. We can say that there is a lot of sound and fury, signifying mostly nothing. Budget subcommittees are meeting in earnest, sometimes for hours. They are largely casting votes on minor things—staffing increases for departments and the like—that don't quite justify the expenditure of time but eliminate the budgetary clutter that they would otherwise have to deal with when they *do* get serious about the budget.

One can only wonder what this process would be like if they did zero-based budgeting. Even tried it for a year.

But one of the issues that is being discussed as part of the budget in a somewhat serious way—though perhaps should be moving through the policy committees—is the Governor's proposed Medi-Cal redesign. It seems that more than a half-dozen hearings have been held on the plan since it was released earlier this year, making each hearing after the first seem like the sixteenth week of a local theater company's performance of "Singing in the Rain." The same folks sit down at the microphones and say the same things about the redesign plan—the hospitals are concerned about the new financing waiver that is under perpetual (if not terminal) negotiations with the feds, the advocates for the disabled don't want mandatory managed care because they don't want the disruption that change may bring, the doctors don't want mandatory managed care even though they'd get paid more (but they **DO** want to get paid more), and the health plans say they are ready and willing to take this on. And nothing happens.

No decisions have been made by the budget subcommittees, possibly because the Legislature wants to review every detail and the Administration feels that the timeline they've established will allow for the resolution of those details once everyone is forced to the table, and not before. There is something to be said for the Legislature to establish standards for certain aspects of the redesign to ensure beneficiaries are protected.

But the Administration also has some merit in pointing out that they have already done this—there are 23-odd counties that have mandatory managed care enrollment for the TANF population, and a subset of those counties (the County Organizations Health System counties) already enroll seniors and the disabled on a mandatory basis. The Administration has demonstrated that it can initiate these county models, ensure that the health plans are ready and bring the system up when everyone is in fact ready, and not before. But there is a lack of trust, there is a lack of detail, and there is a very ambitious and controversial plan on the table. Somewhere there is a middle ground, but folks aren't moving toward that point yet.

Senator Denise Ducheny has suggested that perhaps the Legislature should authorize only the geographic expansion to 13 new counties for the TANF population this year, and then look at the mandatory enrollment for seniors and disabled into managed care next year. The Administration says that delay would also delay implementation significantly, losing many millions in savings for the state, since the seniors and the disabled is where the huge costs of the program lie. We suspect that the Medi-Cal redesign is important enough to the Administration and the fiscal condition of the state that the two sides can find a way to give each other what is needed in order to get something done.

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