
CALIFORNIA BUDGET REPORT

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THE BUDGET IS DONE!

BUT THE ALPHA DOGS MUST POSTURE BEFORE A FINAL VOTE OCCURS...

Yes, Virginia, the 2005-2006 state budget is done. A deal has been reached. “If that is so,” you ask, “why did the Legislature reject the budget yesterday?”

The short answer is that Republicans are still debating whether it is in their political interest to accept the proffered Democratic version of the budget. Remember, the Governor and legislative Republicans are gambling on the November 2005 Special Election going their way, vanquishing the Democrats and returning California to their control.

That explains, in part, why Democrats presented a budget bill yesterday—SB 77—that looked pretty much like the Governor’s May Revision. Democrats, after getting permission from the California Teachers Association, decided to bite the bullet and present a budget that does the following:

- Contains no tax increase.
- Accepts the Governor’s May proposal to fund education.
- Spends about \$1.3 billion on transportation.
- Makes some other smaller changes, discussed below.

Republicans unanimously rejected SB 77, charging that it was 1) printed too late for careful review (as if the Legislature ever gives the budget “careful review”); 2) does not solve the ongoing fiscal problems of the state; and 3) does not accept all of the Governor’s suggestions.

Translation: “Give us a couple of days or a week or so. You’ll have to change a couple of things, give us some money for pet projects, then we’ll agree to put up some votes for the budget.” So the two houses recessed for the weekend, with some lip service to convening on the weekend if a deal were magically produced before Monday. But don’t cancel your weekend plans... no one else is.

How do the Governor and Democrats really differ?

We won't walk you through all of the details, but as usual, the Legislative Analyst managed to summarize the major differences in its analysis of SB 77. You can find the full report at http://www.lao.ca.gov/2005/floor_packet/061505_floor_packet.pdf. We have also attached a copy of the analysis to this issue of *California Budget Report*.

Here are the big differences (dollar figures show differences between the Democrats' proposal and the Governor's May Revision):

1. Democrats refused to let the Administration shift some state-supporter teacher retirement costs to local school districts. Difference: \$469 million.
2. Democrats refused to assume that state employees would agree to reduce their salaries or benefits, as the Governor assumed. Difference: \$408 million.
3. Democrats agreed to suspend the COLAs for welfare and SSI/SSP (aid to the aged, blind and disabled) for one year. However, they rejected the Governor's proposal to not pass through federal COLA payments for SSI/SSP, In-Home Supportive Services workers and welfare grants (CalWORKS). Difference: \$468 million.
4. Democrats rejected the Administration's proposal to prepay half of the amount due local governments from the vehicle license fee changes of last year's budget. Some additional assumed revenue makes up the difference. Difference: \$600 million (though this amounts to a savings over the Governor's proposal).

Of course, there are a number of lesser changes, which you can read about in the LAO analysis. But the key is that Democrats and Republicans are only about \$1 billion apart, which in the crazy budget world of California, is chicken feed! Chicken feed, friends! Remember, that total state spending (all funds, all sources) is in excess of \$235 billion, and the General Fund part of that is about \$89 billion.

And what is the deficit for the 2006-2007 fiscal year? Well, make up your own mind, but as best we can figure out (thanks to the LA Daily News today), the Governor claims his budget proposal only leaves us \$5.7 billion in the hole, while the Democrat's plan would raise that to \$6.4 billion. Democrats quibble that the Governor assumes savings that will never occur (including state employee pensions) and, thus, his shortfall is really \$7.7 billion!

And that, well, that's a whole lot of chicken feed, and likely to be turned into campaign fodder....

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