
CALIFORNIA BUDGET REPORT

Volume 5, Number 7

July 13, 2007

Action! Action! Where's the Action?

As we walk the tree-lined streets of Sacramento (no, not that kind of street walking), readers of the *California Budget Report* usually ask "when is your next budget report coming out"? Normally, we just smile and say "soon." But to be absolutely honest, the reason we have not been writing about the annual budget battle is because the battle is over!

Think about these points:

- The fight between legislative Republicans and Democrats involves about \$2 billion of state spending. That is approximately 2 percent of General Fund spending (and less than that if you add in state own-source revenue). And if you add up all the money the state receives and spends, including federal pass through funds, it constitutes less than one half of 1 percent! This is "budget dust," as the saying goes. Sure, even \$10,000 is a big deal for normal people, but the state budget is so big that a few billion barely registers on budget writers.
- For years, everyone has pretended that it is awful to miss the June 15 budget deadline, or the July 1 start of the fiscal year. In reality, courts have mandated that most state spending continue unaffected, even if there is no budget. Sure, when you get two or three months into the fiscal year....well, then a few programs (and they are very few) might face temporary cuts.
- The only practical impact of a budget delay is that legislative staff and legislators don't get paid until the budget is adopted. That sounds harsh, but our plucky friends at the Golden 1 Credit Union have arranged their special loan program for legislators and staffers to get them over the hump.
- Finally, the Governor and both political parties have agreed that it is OK to spend more annually than received in annual taxes and fees. Sure, some Republicans like Senator Tom McClintock actually mean what they say, but for the most part, politicians have decided that voters like low taxes and increased spending.

Which gets back to the question: If there is not much to fight about, why don't they pass the damn budget? Well, it has to do with the normal political posturing, the constant fear of leadership challenges (which drive tactical decision in both legislative bodies and both political caucuses) and, most important, the public never pays much attention to budgets anyway.

What is holding up the budget?

Here is our summary of the pull and tug of issues that affect the budget:

1. Democrats don't want to be blamed by interest groups for agreeing to cut the budget. Democrats have already agreed to adopt some of the Governor's proposals, including using some growth in mass transit funds to balance the budget (about \$551 million, not the \$1.3 billion proposed by the Governor) and refusing to buy out the UC/CSU student fee increases proposed by the Governor. As best we can tell, Democrats are just balking at going any further. Politically smart insider baseball, but ultimately silly!
2. Republicans are demanding more cuts to make spending equal yearly revenue, but it's not clear whether they have proposed any realistic cuts. Politically smart, if ultimately silly!
3. Republicans are also grumpy about the Governor. Since legislative Republicans tend to be more conservative than the rest of California (as legislative Democrats tend to be more liberal), the Republican caucuses in the Legislature are trying to assert their independence from the Governor. They have not figured out any other way to object to his positions on greenhouse gases or healthcare expansion ("my goodness, he even supports fees to pay for all this!"), let alone find a way to stop the Governor from appointing Democrats to prominent staff positions in the Administration.
4. The Governor decided early to make his proposal and wait for the Legislature to do something. That time may have come to an end since a few Big Five meetings are starting to happen.
5. Health care reform, fights about global warming and implementation of AB 32, and the legislative fascination with modifying term limits are the big outside elements complicating the budget or waiting in the wings, stirring up political juices. We hear that once the budget gets passed, health care reform will be on deck. And of course there is no money for that any time soon.
6. Finally, a word about leadership changes. In a term-limited legislature, there is a very high level of energy directed toward moving the old guys aside so the fresh, young bloods can take over. This tends to make leaders of either political party slightly more cautious about the budget.

And when will the budget be passed?

We have no answer to this, other than the swirling rumors. Some say it is getting closer every day. Others have said that given the current rate of progress, a deal isn't likely until the end of July. Rumbles are that the Assembly and Senate may have pro-forma budget votes this coming week. The strange absence of true legislative anger and the relatively few meetings of the Big Five suggest that summer vacation for legislators and staff may be delayed or even cancelled.

We also want to chicken out on this point, and caution that everything could fall together in short order. After all, the \$2 billion gap could be resolved easily by any one or more of the following:

- a) New revenue or spending estimates that make the target smaller.
- b) Moving some additional one-time money into supporting permanent spending.
- c) Reducing the budget surplus.
- d) Figuring out what legislative Republicans really want (how about \$8 billion for the Governor's new dams?), and putting some kind of bond issue on the 2008 ballot.
- e) Other, unspecified pork allocated in a manner to garner the necessary votes.

Stay tuned.

A good source for budget information

We urge our readers to take a look at the Budget Conference Committee web site, <http://democrats.assembly.ca.gov/members/a27/budget/PreliminaryConferenceOverview07.pdf>. Maintained by the staff of Assemblyman John Laird, this year's chair of the conference committee, this is one of the best examples we know of trying to bring budget information directly to the public—and the Third House, too.

Insiders at *California Budget Report* complain that the information is not updated every 2 minutes (so we don't have to walk to the Capitol), and also complain that the California Channel (our publicly-supported TV/Radio coverage of Capitol events) is not fast enough, or the web cast is always downloading and delaying things. Having complained about things, even we have to confess that the amount of available budget information is immense.

A bit of history: Back in the good old days, the Budget Conference Committee used to meet in the Senate Lounge, in private! Other than the six legislators involved, only A. Alan Post, the Legislative Analyst for many years, was allowed in the room. No other members, let alone legislative staff, lobbyists, pesky reporters or citizens were able to watch the action.

In 1967 (we think), one of us was allowed to sit in on these secret budget conference committees. This was a big deal, since the notion that staff would be involved was a direct violation of Senate protocol.

Willie Brown was chairing the Ways & Means Committee for the first time, and insisted staff be invited. In a huff, the senators agreed, but the two lone staffers, one from the Assembly, the other from the Senate, were ordered to “sit in the back and not talk.”

We watched these powerful legislators debate policy, talk to Alan Post about what to do, stretch out on the leather sofas and wait for Post to return with answers, and occasionally consume berry pie brought by Republican Senator Fred Marler. And we never said a word! As best we recall, the budget was almost always passed on time.

Now, everyone knows the process is much better. After all, each member of the conference committee has numerous staffers hovering around, and the Chair usually has his or her staff rotating when subject areas change. Lobbyists flood the meetings, looking like nothing so much as coveys of quail searching for food. Bored reporters drop in and out, mutter that nothing is going on and leave to file the story they wrote days ago. Angry interest groups occasionally drop in for one item or another, and seem appalled that the conference committee does not give them a chance to testify. And the budget is late most of the time. Boy, we love this new budget process!

The California Budget Report is produced by Phil Isenberg and Maureen O’Haren of ISENBERG/O’HAREN. Questions, comments and requests to be added to the mailing list should be directed to Phil at phil@isenberg-oharen.com or Maureen at maureen@isenberg-oharen.com

www.isenberg-oharen.com