
CALIFORNIA BUDGET REPORT

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Waiting for the Axe to Fall...

We're sure you all saw the interesting news that the Governor thinks the budget gap is now somewhere around \$10 billion. His statement came on the same day that Elizabeth Hill, the Legislative Analyst, reported that it is \$8 billion or more. So we're converging on a number, and perhaps by the May Revise we'll have a figure that everyone's willing to work from.

Whether it's \$8 billion, \$9 billion, \$10 billion or more, no one on the street will be really surprised (we hear from senior budget staff that it's around \$10 billion), and a billion here or there won't make the job any easier. It just may factor a bit into the betting pool as to when the budget gets signed.

Yesterday, the Senate Budget Committee met to hear from the LAO and to receive updates from the subcommittee chairs. Below is a report on that hearing from Matthew Christy, the now-well-known Isenberg/O'Haren intern who is our 2008 budget expert.

Here are the links to the LAO Budget Update and the Sacramento Bee article.

LAO Budget Update:

http://www.lao.ca.gov/handouts/state_admin/2008/Budget_Update_04_24_08.pdf

4/25/08 Sacramento Bee. Budget Deficit Now Put at \$10 Billion: <http://www.sacbee.com/111/v-print/story/888902.html>

Senate Budget Committee

The Senate Budget and Fiscal Review Committee began with Chairwoman Denise Ducheny noting that the state will not have a reliable update on the scope of the budget deficit until the May Revision, because April is typically the strongest month for state revenues.

The new ranking Republican member of the Committee, Senator Bob Dutton, then introduced himself and explained his approach to balancing the budget. He advised that he plans to apply an old adage his grandmother taught him: “Watch the pennies and the dollars will take care of themselves.” He also plugged Republican legislators’ forthcoming plan to avoid cuts to education, which was announced at a Capitol press conference after the committee adjourned. More on the Republicans’ education plan later.

Then the Legislative Analyst, Elizabeth Hill, updated the committee on the status of the budget. She did not have a new projection on the scope of the budget deficit because her office is waiting until April revenue numbers and the May Revision are released before making that determination. However, she did indicate later that recent revenue shortfalls and expenditure increases indicate that the budget deficit has grown by an additional \$2 billion dollars since her office’s February projection.

Hill praised the actions legislators took to decrease the budget deficit earlier in the year during the extraordinary session. However, she asserted that the savings generated from those actions were predominately one time in nature, rather than of an ongoing character, and that long-term solutions were necessary to resolve structural problems with the budget. She also pointed out that even after that round of cuts, the budget deficit for the coming year was still estimated at around \$8 billion. In order to illustrate how big the budget gap remains, Hill noted that *total elimination* of state funding to the University of California and the California State University systems would only save **\$6.5 billion**.

Hill then reviewed new information about state revenues. She advised that personal income tax receipts were actually above estimates in the last quarter, bringing in \$163 million. However, she also said that sales and the corporate tax receipts for that same period were below estimates. She attributed the shortfalls in these two taxes to the decline in the housing market, the resultant decline in demand for durable goods, and the rise in gasoline prices.

Hill also noted that some expenditures were exceeding estimates. She pointed to the increase in the corrections budget necessitated by the prison health care receiver’s projections and the increase in applications for CalWorks benefits. She also noted that ongoing weakness in the housing sector was affecting property tax revenues. Hill concluded that, all-in-all, the state’s economy was “still facing a very tough situation.” We think the state’s economy is CAUSING a very tough situation.

After Hill’s presentation, the committee heard reports from the chairpersons of its four subcommittees. Senator Jack Scott, chair of the Budget Subcommittee on Education, discussed possible policy approaches to sustain critical education funding despite the budget shortfall. He made note of the forthcoming announcement of the Republican plan to fund education, and wondered aloud if they had discovered an excess couple of billion dollars to avoid further cuts.

Scott told the committee that the subcommittee had been considering categorical reforms to provide local school districts with more flexibility to ameliorate the effects of cuts. He referred to three separate bills, two Assembly bills and another by Senator Romero, that attempt to implement these reforms. He suggested that the authors of these bills begin working together. Scott also pointed out that lower property tax revenues would hurt the state's community colleges disproportionately because they are not guaranteed General Fund monies in case property tax receipts fall short of estimates.

Next, Senator Alan Lowenthal, chair of the Subcommittee on Natural Resources, provided an update on that subcommittee's deliberations. He reported that his subcommittee quickly rejected the Governor's 10-percent, across-the-board cuts because they failed to account for the relative benefits of various programs. He acknowledged that his subcommittee was somewhat more insulated from the budget crisis because so many of the programs it oversees have their own dedicated funding sources. He said that the subcommittee had been working to find new revenues nonetheless. The subcommittee has been considering several new fees and how to assess them, including a fee for fire-protection in the State Responsibility Area. He noted that the subcommittee held these deliberations open pending the release of the May Revise.

Then Senator Elaine Alquist, chair of the Subcommittee on Health and Human Services, noted that one-third of the state budget is dedicated health and human service programs, and that deliberating cuts to these programs was often emotional because any cuts had the potential to put the most vulnerable people in the state at even greater risk. She then assured the committee that her subcommittee had undertaken its share of actions to reduce the budget shortfall. She noted that reductions approved were intended to maintain a safety net of core services for the state's most vulnerable.

Senator Mike Machado, chair of the Subcommittee on Public Safety and Criminal Justice amongst other things, then reported on that subcommittee's work. The topic that generated the most discussion during Senator Machado's presentation was the funding of prisons. Machado asserted that it was particularly difficult to cut funding for prisons because the biggest expenses in that area were for personnel. Because of prison overcrowding, reductions in prison staffing are all but foreclosed. There was a great deal of debate over the ability of the Department of Corrections and Rehabilitation to implement money-saving changes administratively under existing law. Senator Steinberg said that the Administration had the ability to save substantially through enacting these changes, and he requested better information that would show the breakdown between money-saving opportunities that require legislative action and those that merely require administrative action under existing law.

At this point, Senator Gloria Romero said that the administration could create significant savings through administrative changes under existing law. She asserted that corrections will cannibalize the budget unless significant changes are undertaken. Romero ended her comments by arguing that legislators need to shift to being smart on crime rather than just tough on it.

Senator Scott echoed Romero's comments. He noted that one out of every one hundred Americans is currently incarcerated, and pointed to excessive sentencing as an explanation for why. He argued that recidivism is exacerbated in the state because of its draconian parole system.

This generated a debate over the merits of parole realignment, a reform advocated by the Legislative Analyst's Office. Senator Alquist followed Senator Scott's lead, pointing out that the state had the highest recidivism rate in the nation, at 70 percent. Then Chairwoman Ducheny noted that she prefers "earned discharge" over "summary parole," because it better prepared released inmates for success in the outside world after their release.

The Committee then discussed the costs of federally mandated prison health care reform. Senator Alquist questioned the equity of implementing draconian cuts in state-sponsored health care for citizens who have done no wrong, while concurrently paying to provide much-improved health care to convicted criminals. Senator Machado noted that California's prison system has become the largest mental health hospital in the nation. He advised that whatever parole reforms are undertaken, it is essential that programs and services be developed that reduce recidivism. Several other members of the Committee then noted that providing improved education would be essential to avoiding the high cost of imprisoning so many Californians.

So stay tuned for the May Revise....

Republicans Press Conference on Fully Funding Education

Immediately after the Senate Budget and Fiscal Review Committee adjourned, Republican legislators held a press conference to announce their dedication to fully funding education in the coming budget. Speaking for Republican legislators, Assemblyman Mike Villines, the Republican leader in the Assembly, asserted that the two Republican Caucuses were dedicated to funding all \$57 billion of Proposition 98's education-spending mandate in the budget year, thereby providing \$2.1 billion more for education than the Governor's proposed budget. Villines advised that Republican legislators philosophically support spending for education and public safety, but reiterated Republicans' commitment to fighting tax increases. When reporters asked how Republicans would generate the money necessary to fully fund education, Villines was evasive. However, he did indicate that even more cuts would be necessary from the health and human services portion of the budget.

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