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The Governor's State of the State address: Where's the beef?

We will spend some days thinking about the larger implications of the Governor's State of the State message, but our first impression is mixed.

Yes, the Governor promised dramatic reductions in 'increases in spending', "no new taxes", and cuts "across-the-board". But almost all of that will require a) legislative action, mostly by either a majority vote or a 2/3 vote, b) probable voter approval through amendment of the state constitution and c) could only take effect toward the very end of this fiscal year --- meaning that the 'savings' that might occur would be far less than actually needed. Yes, the Governor proposed that the constitution be amended to give him the authority to cut the budget. That sounds dramatic, but earlier in the week former Governor Pete Wilson was invited to give the Governor's weekly message and Wilson repeated the same proposal for increased budget cutting authority that he made, and failed to receive.

Likewise, the Governor's brief discussion of water development and education lacked drama. The legislative reaction, if applause is any indication, was equally limited. Neither Democrats nor Republicans rose to their feet for applause, or not much. Unlike past years, this speech was muted in tone, perhaps consistent with bad economic news, fires, drought and declining state revenue. It was also received with banked enthusiasm by the Legislature, if applause is any indication.

Let's wait until Thursday to see if the budget gives us a better overall view of the Governor's strategy. This speech appears to be tactical, not strategic.

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Here, in 8-point type, is the speech. Get out your glasses.

Lieutenant Governor Garamendi, Speaker Núñez, Senate President Pro Tem Perata, Senate Republican Leader Ackerman, Assembly Republican Leader Villines, my fellow servants of the people, ladies and gentlemen ...

When I was last here, little did we know that California would be engulfed by the largest firestorm in its history. It turned the night sky an eerie, disturbing orange and the day sky black. It drove hundreds of thousands of our citizens from their homes.

In response, the Army of the Inferno - 140 aircraft, 1,600 fire engines and 15,000 firefighters - mobilized to battle the flames. It sounds like a scene from a movie but it was real...and people died. People lost their homes. Peoples' lives changed.

That first Monday night during the height of the fires, I went to Qualcomm stadium in San Diego, which by now became an evacuation center. I wanted to see for myself if the people had enough food, water, necessities. I talked to the people there. They were worried, of course, but they were in good spirits. They felt their government had responded.

Then I heard there were people at Del Mar racetrack, so I went unannounced to see the situation for myself. I found 300 frail, elderly people who had been forced from their nursing home by the fire.

It was here that I met a volunteer named Paul Russo, a nurse practitioner who appeared to be running the place. Paul, who's also in the naval reserve, had a military command of the situation. His clarity and control were impressive and I noticed this gave people confidence.

He knew that the nursing home residents - sitting in wheelchairs and lying on mattresses on the floor - had to be moved to facilities where they could get dialysis and medicines and other things they needed. Paul and a couple other volunteers were calling hospitals and ambulances trying to find places and means of transportation.

Their commitment moved me, so I said to Daniel Zingale, one of my senior advisers, "We're not leaving until we help them take care of these people." So, I got on the phone, too.

And together, we found beds for emergency situations at a nearby military base. We found a school district that agreed to send special education buses.

I left, but Paul stayed up all night and had everyone moved by the next afternoon. What Paul and the volunteers did, what the police and firefighters did and what state and federal agencies did...was this: They responded to the needs of the people. They led. They acted. They did not wait.

From bottom to top, everyone knew this was their moment. They resolved, without a word being said, that this would not be another Katrina.

President Bush and the entire Federal Government could not have been more supportive, and I want to thank the President and Secretaries Chertoff and Kempthorne for their great help.

The President said to me more than once, "If there's anything you need, give me a call." In fact, I did call him back just to check it out - and sure enough, he got on the phone. He was there for California.

Paul Russo was there for California. And this evening, I want to recognize Paul, who represents a devotion to the greater good in a time of crisis.

In addition to the volunteers, firefighters, police, and state, local and federal employees, let me tell you another group that deserves recognition - the general public. People came together. They cooperated, they evacuated, they rescued, they contributed. They were exemplary citizens. And so, I would like to express my profound appreciation to the people of California.

Ladies and gentlemen, working together, people can accomplish remarkable things.

In April, a fiery truck crash melted the Bay Area's 580 freeway exchange. Hundreds of thousands of Californians who depended on that interchange foresaw months of delays and stress.

Yet it didn't take the normal 150 days to repair. Caltrans, working with contractors, cleared the span in 10 days and then built a new bridge and opened it up in a record 16 days later.

Government can work. It can be efficient. It can lead.

Even though we're not suffering a serious economic downturn, still, the risk of foreclosure threatens many Californians with the loss of their homes, and thus the American Dream.

So we took action and reached a voluntary agreement with major lenders to freeze interest rates for homeowners most at risk. This could help keep more than 100,000 Californians in their homes.

Government can lead.

This last year, we took on other tough issues - the very contentious issue of prison reform and rehabilitation, the world's first low carbon fuel standard and the most comprehensive health care reform in the nation.

Let me explain why health care reform is so important.

Here in California, the health care system is collapsing under its weight, its costs, its gaping holes, its injustices. Millions of people can't afford - or can't get - health care.

Our emergency rooms are crowded or closed. 60 closed in the last ten years.

Medi-Cal patients are being turned away at hospitals.

Businesses and families are experiencing double-digit increases in health care costs.

Medical bills are the number one reason people file for personal bankruptcy.

All this is weakening our economy and contributing to our budget deficit.

But let me make this more personal and real - through a true story about a 51-year-old, self-employed San Diego man named Todd.

Todd had been on his wife's insurance plan, but after a divorce, he found a policy with a well-known company. Five months later, he started feeling tired, and soon learned he had lymphoma.

The insurance company then went back through all his records looking for a reason to cut him off. They pointed to a minor knee problem unrelated to the cancer. They noted that he now weighed less than he did when he applied for the insurance.

Well, of course, he did. He was now sick with cancer. But they cut him off.

One month after he got sick, the company cancelled his insurance. Todd died eight months later.

We are taking action so that what happened to Todd will not happen to any other Californian.

Now, I understand the concern that we have a deficit, and that our plan is too daring, too bold, too expensive. But sometimes you have to be daring, because the need is so great.

You want daring?

FDR didn't ignore the problems of the Depression because times were tough. He addressed those problems in big, visionary ways because times were tough. He saw the problems and he acted on behalf of the people and the nation.

For example, to give America jobs, he created the WPA, which built 650,000 miles of roads, 78,000 bridges and 125,000 buildings. All these things we are still enjoying today.

We, too, must act boldly on behalf of the people and the state. And I want to thank the Assembly for its action on health care. When the Senate finishes its deliberations, I am confident the people of California in November will approve the most comprehensive health care reform in the nation.

In any number of areas, we've tackled politically risky things that no one in the past wanted to touch. To me, this is progress. And now, we must make progress on another problem that's been put off for many years. Professor Schwarzenegger is now going to explain the economics of our budget problem.

Our budget problem is not because California's economy is in trouble. In spite of a weakness in housing, other areas of our economy continue to thrive. We remain a powerhouse of technology, agriculture, advanced research, venture capital, international trade and innovation. And we continue to have job growth.

So, our revenues this coming year are not going to be lower than last year. They're simply going to hold steady.

The problem is that, while revenues are flat, automatic formulas are increasing spending by 7.3 percent. Even a booming economy can't meet that kind of increase. So, the system itself is the problem.

Also, for example, the rich in California by far pay most of the income taxes, but we only have so many rich people. The top 10 percent of our population - those making more than \$119,000 a year - pay nearly 80 percent of the taxes. So, our whole revenue system, its ups and downs, is based on whether the rich have a good year.

That's no basis on which to run a government. We need more stability.

Another thing...some people say, "Arnold, you're part of the reason we have this deficit - because you stopped the car tax increase."

Yes, I did do that, and I would do it again. It's not fair to punish people who can barely afford the gas to get to work, and on top of that ask them to pay for a tax increase to cover Sacramento's overspending.

I said it back during the Recall and I'll say it again, "We do not have a revenue problem; we have a spending problem."

We have to fix the system. The first year I was here, I tried to fix the system. I tried to get the legislature to pass a constitutional amendment to limit spending, but it did not pass. Then, in 2005, I tried to convince the voters to pass a constitutional amendment to control the budget, but that failed, too.

So, for several years, we took actions that balanced the budget as long as the economy was booming. For several years, we kept the budget wolf from the door. But the wolf is back.

It used to be that Sacramento plugged deficits by grabbing money everywhere it could - pension funds, local governments, bonds, gas taxes meant for transportation. But we tightened the noose by taking away those options. We passed Proposition 1A, Proposition 58 and Proposition 42.

We now have no way out, except to face our budget demons.

To address next year's \$14 billion deficit, in two days I will submit a budget that is difficult. It does not raise taxes. It cuts the increase in spending. And it cuts that spending across the board.

As governor, I see firsthand that the consequences of cuts are not just dollars, but people. I recently brought leaders and advocates of various communities into my office to tell them about what we faced financially.

I had to look into their eyes and tell them.

Talking about fiscal responsibility sounds so cold when you have a representative for AIDS patients, or poor children, or the elderly sitting across from you. It's one of the worst things about being governor.

Yet fiscal responsibility, like compassion, is a virtue, because it allows the necessary programs in the first place.

What I find most troubling is the erratic ways we treat those who need our help. Up one year and down the next. We cannot continue to put people through the binge and purge of our budget process.

It is not fair. It is not reasonable. It is not in the best interests of anyone.

So I am again proposing a constitutional amendment so that our spending has some relationship to our revenues. It is modeled after the process used in Arkansas. When revenues spike upwards, the amendment I propose would not let us spend all the money that rushes in when the economy is good. Instead, we would set some of the good year money aside for bad years.

When revenues jumped 23 percent in 1999-2000, or when they jumped 14 percent in 2005-2006...those were sugar highs. I remember how everyone here was so enthusiastic and so hopeful and so creative about how to spend that money. Everyone was saying, now is the time to do this, now is the time to do that. All good causes. If not now, when?

Then the sugar is gone and we come down off our high. We spend it all one year and can't sustain it the next. We need to budget more evenly.

Also, the way things are now, when we see a budget problem developing during the year, we don't have a way to stop it. We just keep the spending accelerator to the floor. What kind of sense does that make?

We need some brakes. We need an alternative to crashing. It's like a slow motion crash. You can see it happening, but you can't do anything about it.

Like right now, we're spending \$400 to 600 million more a month than we're taking in. And we can do nothing to stop it.

This amendment would do something. It would trigger lower funding levels if a deficit opens up during the year.

Ladies and gentlemen, I have faith that working together we can give California a budget system worthy of the people who rely on it.

Which brings me to public education. It makes me proud as governor that a recent survey found that 23 out of the top 100 public schools in the nation were in California. I would like to congratulate the teachers, principals, administrators and all who are responsible for these remarkable schools.

There are other good things, too. The number of high school students taking advanced math and science courses has increased 53 percent since 2003. That's terrific for our high-tech future.

And we have other good education news, but as you know, it is not all good.

Our dropout rate is between 15 and 30 percent. We don't even know.

This is not just a statistic. These are children lost in a black hole of ignorance, poverty and crime. Our schools have 30 percent fewer teachers and half the number of counselors than other schools in the U.S.

Everyone knows that to dramatically change our education system we have to undertake reforms, and we have to fund those reforms. In light of the current budget situation, this is not the year to talk about money.

I do believe, however, we still must undertake reforms right now in the schools that need our help most.

To varying degrees, 98 school districts in California are out of compliance with the No Child Left Behind Act. According to the Act, after five straight years of noncompliance by a district, the state is required to take action or lose federal funding. We have identified several districts that on the whole have persistently failed to educate children.

I am announcing tonight that California will be the first state to use the powers given to us under the No Child Left Behind Act to turn these districts around. We will be working with Superintendent of Public Instruction Jack O'Connell, the teachers, the administrators, the parents and elected officials to make these districts models of reform.

No more waiting. We must act on behalf of the children.

Likewise, on infrastructure, I will continue to push for action. We have a water system built decades ago for 18 million people.

Today we have 37 million people. In 20 years, we will have 50 million people. We have to get going.

Already homes and businesses are facing mandatory cutbacks. Farms are unable to irrigate crops. Building permits are being denied.

And yet raging flood waters run wasted into the sea because they can't be captured. We must expand water storage. We must build new water delivery systems. We must fix the Delta and restore its ecosystem.

And I will continue to push you on this, because California needs water now - and 20, 30, 50 years from now.

Over the next 20 years, we have \$500 billion worth of infrastructure needs to be met. As we head into this new century, we also need digital infrastructure to keep our economy growing.

So how do we meet all these needs? There isn't enough money in the public sector to do all of it.

We need to expand partnerships where government and the private sector work together to meet the needs of the people. These partnerships can often deliver infrastructure faster, better and cheaper.

For instance, in British Columbia, public-private partnerships are common for building highways, bridges, rapid transit, water treatment. Everyone is happy. The political leaders are happy, business is happy, the public is happy, the economy is happy, the future is happy.

In the weeks ahead, I will send you legislation to make these partnerships more available to our state and to our local governments.

We will also continue to make California the world's environmental leader.

We are leading on climate change, low carbon fuels, energy efficiency - and on clean, green technology. When it comes to cleaning our air, preserving our oceans, protecting our environment, California will continue to be the foremost advocate for change.

And if we have to sue the federal government to get out of our way, we will do so.

Now, I will be submitting to you many legislative proposals - on energy and the environment, on infrastructure, on education.

And I will also submit a proposal on behalf of our returning veterans. They deserve not only our gratitude and respect, but a more open, welcoming door to civil service and education benefits.

Let me close by saying that last year I talked about post-partisanship. A few cynics made fun of that idea. But that is how I tried to conduct my Administration over this past year. It's how I intend to conduct business over the coming year.

Speaker Nunez, Senate Leader Perata, Senator Ackerman and Assemblyman Villines, I cannot fix the budget alone. I can't build the roads and bridges alone. I can't improve education alone.

You are my partners. All of you sitting here in this chamber are my partners.

This coming year will test us in very hard ways.

I like something that Paul Russo said when he was asked why he didn't go home and get some sleep that night at Del Mar. He replied, "When you have a job to do, you get it done."

Ladies and gentlemen, we have a job to do for the people of California. Let's get it done.

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