

SYSTEM BUDGET UPDATE

5.1

INFORMATION AND REPORTS

Presentation: Erik Skinner, Vice Chancellor, Fiscal Policy

Issue

This item presents an oral briefing on the System Budget. The update will cover the status of the State Budget for 2008-09 and 2009-10, including developments in the recent special legislative sessions to address the state's fiscal crisis.

Background

On November 6, Governor Schwarzenegger declared a fiscal emergency, thus triggering a special session of the Legislature to address the state's current-year budget problem. That first special session failed to yield a resolution, as did a second special session called by the Governor in December. The Legislature is now in a third special session that, so far, has not taken any action to address the state's fiscal crisis.

Since early January, the Big Five, comprised of the Governor and Democratic and Republican leaders in the Assembly and Senate, have met almost daily. Publicly, they have been saying very little, other than to comment that negotiations are going well. It is notable how little information has been leaking out of Big Five negotiations—even to members of the Legislature. This secrecy surrounding budget negotiations has become a source of frustration for legislators who are feeling left out of the process.

This unprecedented level of discipline by the Big Five is seen by many as an indication that state leaders understand that time is truly running out for them to address the budget crisis. The state's cash crunch is now having real-world impacts—billions of dollars of public construction projects are frozen and the State Controller is beginning to delay some payments, including tax returns, some Cal Grants, and certain vendor claims. Further delay would potentially have devastating impacts on programs, services, and local governments. Were the state to default on payments to bondholders, damage to the state's credit worthiness would limit the state's ability to borrow and raise the associated costs for years to come. Given these high-stakes consequences, the Big Five are being careful to avoid leaks that could mobilize special interests and blow up a pending deal.

On February 5, Senate Pro Tem Darrel Steinberg commented that Big Five negotiations were “coming to a close” and that both houses would meet the following week to vote on a budget plan. Senator Steinberg was careful to note that there was not yet a “deal” given that some issues were still unresolved. Still, this is the most concrete indication of a budget resolution that we have seen since the Governor first declared a fiscal emergency in November.

Analysis

As of the time this item was drafted (February 13), the details of the pending budget deal were not yet public. However, newspapers have reported details from a leaked outline of the pending deal. The reported details include:

- \$15.8 billion in additional cuts
- \$14.3 billion in tax increases
- \$10.9 billion in borrowing

The proposed tax increases are said to include a sales tax increase of 1 cent on the dollar, a 2.5 percent surcharge on income taxes, an increase in the VLF from 0.65 percent to 1.15 percent, and a 12 cent per gallon increase in the gasoline tax.

According to reports, numerous aspects of the deal would require voter approval in a statewide election. Some of these include imposing a “rainy day fund” cap on state spending; redirecting monies from special funds for early childhood development (Prop. 10) and mental health services (Prop. 63); modifying Proposition 98; and “enhancing” the State Lottery. The change to Proposition 98 has not been discussed publicly but may address a technical problem related to “maintenance factor” calculations that was discovered during the course of recent budget deliberations. The tax increases described in the previous paragraph would go into effect for five years if the rainy day fund spending limit is approved by the voters and for only two years if that measure fails.

While these and some other details have been leaked, most of the details—particularly in regard to the specific spending cuts—have not been released. Legislators and budget staff continue to be extremely tight lipped, apparently in an attempt to keep stakeholder groups from mobilizing in an attempt to force changes in the tentative agreement.

A budget vote originally scheduled for Friday, February 13, in the Assembly has now been rescheduled until the morning of Saturday, February 14. This may be an indication that legislative leaders are having difficulty securing the two-thirds majority needed for passage or it could simply mean that budget staff needed some additional time to put the budget deal in print. The Senate is also scheduled to take up the budget on Saturday, February 14.

This item will include an oral briefing on the latest developments in the budget process.