



Digest

CONSULTATION

Date: February 19, 2009

Title: State Budget Update

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Issue

This digest provides an overview of recent activity regarding the State Budget. At Consultation Council, Vice Chancellor Erik Skinner will provide an update on the most recent developments in the state budget process.

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.

For the past few weeks, 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 Darrell 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. As of the time this digest was drafted (February 9), no details were available concerning the pending deal.

As of the writing of this digest (February 9), the Legislature has not yet held any special session hearings. The Assembly Budget Committee will hold a hearing on Friday, November 14 to debate the Governor's special session proposal. The Senate has no special session hearings scheduled.

A full update on recent developments in the budget process will be provided at Consultation Council.