

Budget Action Bulletin: Special Session No. 2

2008-09 Proposed State Budget

Week of December 8, 2008

Via Electronic Mail

DATE: December 9, 2008

TO: CSAC Board of Directors
County Administrative Officers
CSAC Corporate Associates

FROM: Paul McIntosh, Executive Director
Jim Wiltshire, Deputy Director

RE: **Budget Action Bulletin: Special Session No. 2**

Yesterday afternoon, in a rare event, the Senate and Assembly met in joint session to hear about the state's budget woes from Legislative Analyst Mac Taylor, Director of the Department of Finance Mike Genest, State Controller John Chiang, and State Treasurer Bill Lockyer. (Some have half-jokingly called them the "Four Horsemen of the Apocalypse.") All communicated some version of the same sentiment: **Do something and do it now.**

Each speaker offered a bleak view of the next couple of months, with projections from the Department of Finance of a cash flow shortfall of \$2.4 billion in March and \$7.6 billion in July. Director Genest, in fact, indicated that the state's fiscal circumstances are likely to worsen, hinting that the January budget presented by the Governor will reflect a situation significantly more dire than described by the Governor's special session proposal or the most recent analysis by the Legislative Analyst's Office (LAO).

Legislative Mac Taylor shared some interesting information with legislators. (The full report can be found [here](#).) If the gap were to be solved with tax increases alone, here is what must be done:

- Two-cent sales tax increase
- 15 percent personal income tax surcharge
- Two percentage point corporate tax increase

These increases, if enacted, would make these taxes the highest in the country.

Alternatively, if the gap were to be solved with program cuts alone, according to Taylor, here is what must be done:

- Eliminate General Fund support for the University of California and California State University systems
- Eliminate funding for welfare payments
- Eliminate funding for developmental services, mental health, and In-Home Supportive Services

Taylor concluded this discussion by reaffirming his message that the budget must be resolved with a combination of new revenues and program reductions.

State Controller John Chiang indicated that the cash situation is so grim, the state could be forced to issue IOUs for the second time since the Great Depression. He cautioned that if the state were forced to resort to IOUs, more hazards would likely ensue given that this act would be viewed very unfavorably by Wall Street and creditors. (See Controller Chiang's presentation to the Legislature [here](#).)

Of particular concern, State Treasurer Bill Lockyer indicated that in nine days he would impose a freeze on state infrastructure projects funded by bonds due to the state's cash crunch. There is no market for voter-approved infrastructure bonds due to the state's fiscal situation. Transportation, flood control, and school construction projects would be delayed until the budget situation is resolved. This warning is particularly troubling as the state is working with the federal government to develop an infrastructure investment program intended to fast-track state and local infrastructure projects in the hopes of providing a shot in the arm for the ailing economy. (See Treasurer Lockyer's presentation to the Legislature [here](#).)

Even amidst the doom-and-gloom scenarios painted by the state's fiscal experts, we continue to hear a familiar refrain from the Legislature: Republicans are adamantly opposed to tax increases, while Democrats reject additional program cuts beyond what was considered in November. (View the letter from Republican leaders to Democratic leaders [here](#).) Unfortunately, if legislators continue to prolong this game of chicken, we will more than likely face options for budget solutions that are far more difficult than those that are on the table today.

Specific next steps from the Legislature include a series of budget subcommittee meetings over the next two weeks. It is our understanding that the Legislature will work off of the Governor's November [Special Session proposal](#). (CSAC's previous summary of the so-called "November Revision" can be found [here](#).) Budget subcommittees have been reformulated with the incoming class of legislators. Interestingly, Senate Preside pro Tempore Darrell Steinberg has assigned each of the state's 40 senators to a budget subcommittee, and the Senate Budget and Fiscal Review Committee will sit as a committee of the whole, meaning that all 40 Senators will participate in hearings. CSAC will keep you updated as specific actions are considered or taken over the coming weeks.

WHAT YOU SHOULD DO:

We understand that many of you are meeting with your new legislative delegation soon to discuss the budget situation at the state and county levels. If you haven't scheduled such a meeting, we urge you to do so. (CSAC will be meeting with legislators during the coming weeks, as well. Feel free to offer us up as a resource as you talk with your Senators and Assembly Members.) Many new legislators are unfamiliar with the history of the state-local fiscal relationship and how counties act as the service arm of state government. Explain to your delegation your budget situation at the local level and how the economy is affecting the work you do in your communities. Most importantly, let them know how state actions have real local impacts. To assist you, CSAC has developed talking points that can be used when discussing the fiscal emergency with your state representatives:

- Counties recognize that the state's dramatic budget crisis will require difficult choices. We know that there are no easy answers. However, we also believe that it is in the best interests of all Californians to resolve the budget dilemma in a responsible and straightforward manner. Swift, meaningful action to avoid an even worse situation will show Californians that their state elected leaders who can manage this crisis.
- California counties are facing the same kinds of fiscal constraints locally and are taking dramatic action to keep budgets balanced while maintaining core public services and infrastructure. We are working hard to ensure stability at the local level, and we know that additional reductions at the state level will create significant challenges for counties and the people we serve.
- Counties support a balanced budget approach that responsibly addresses the state budget deficit, both now and in the future. We stand ready to work with the Legislature to develop budget solutions that address the dysfunctional state budget system.

WHAT'S GOING TO HAPPEN NEXT:

Senate Budget Subcommittees are scheduled to meet this week and the Assembly Budget Committee is scheduled to meet next week. It is not clear what actions, if any, will be taken or if public testimony will be allowed. We will report to you as activities warrant.

Also, remember that CSAC has requested data from counties on a couple of fronts. First, Kiana Buss (kbuss@counties.org) is still collecting data on capital projects that could serve as a component of an economic stimulus package. Second, we are still requesting information on the impacts of the state payment deferrals from early 2008. Please contact Jean Hurst (jhurst@counties.org) or Geoffrey Neill (gneill@counties.org) to have your county's information included. Finally, we have asked for data about county budgets and the economy. Counties are urged to respond to that survey by Friday, December 12, 2008. Please contact Jean or Geoff if you have questions.

Stay tuned for the next Budget Action Bulletin!

If you would like to receive the Budget Action Bulletin electronically, please e-mail Faith Conley, CSAC Legislative Analyst, at fconley@counties.org. We're happy to accommodate you!